AIR WATER INC.

Mixed Sources
Product group from well-managed forests and other controlled sources
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3.9
GREENSTYLE
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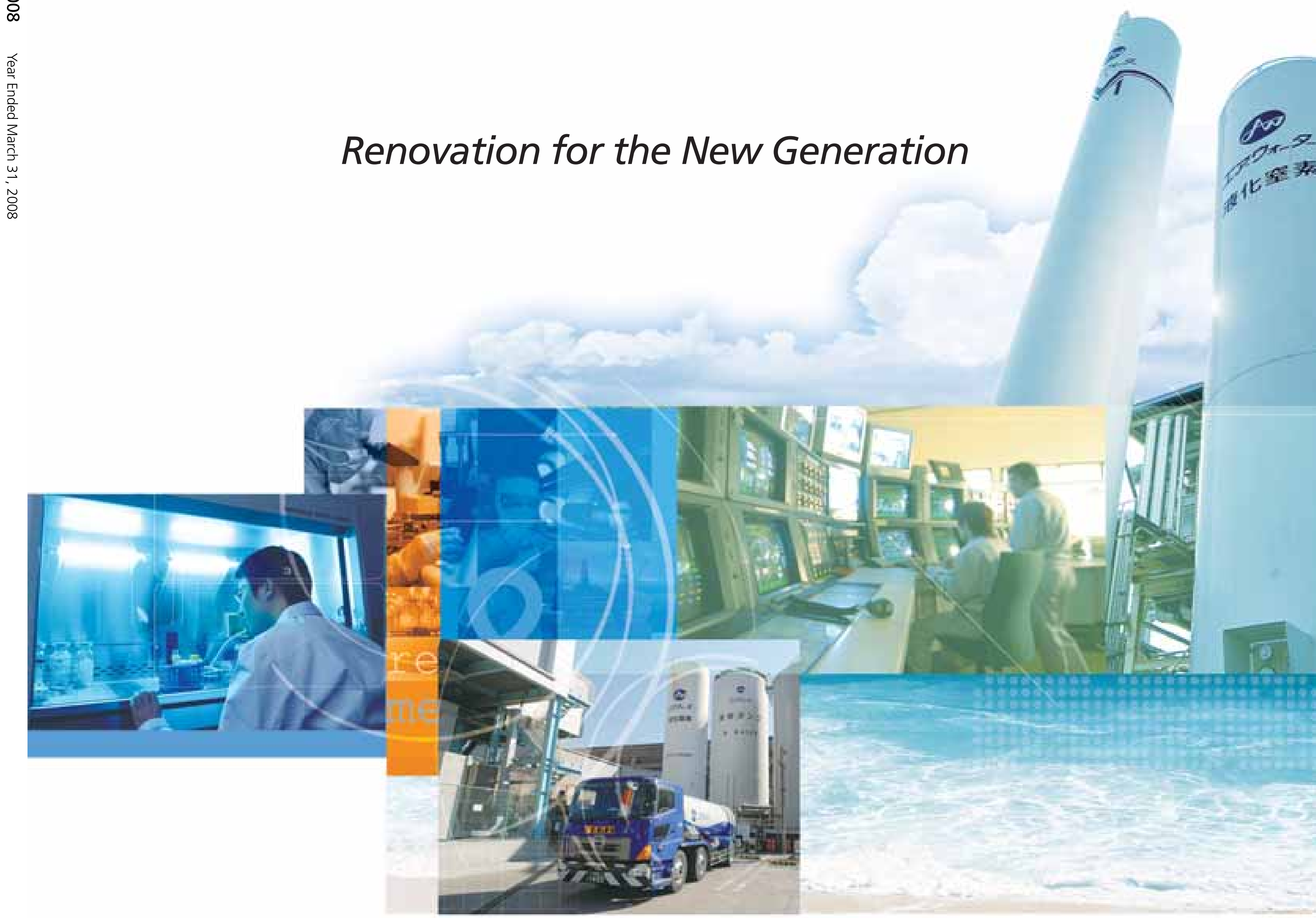
AIR WATER INC. supports "the KIZUKAI-UNDOH (Wood Products Utilization Campaign)" promoted by the Forestry Agency because we think it is important to positively use domestic timber and grow the forest in Japan. The domestic timber is used as papermaking material for producing this booklet, and it contributes to expand carbon absorption of the domestic forest.

AIR WATER Annual Report 2008 Year Ended March 31, 2008

Annual Report 2008

Year Ended March 31, 2008

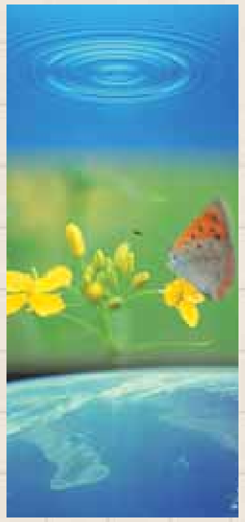
Renovation for the New Generation



AIR WATER INC.

Renovation for the New Generation

Corporate Profile



Utilizing air and water, vital natural resources of the earth, delivering products derived from such resources, delivering the products with a sense of reassurance and safety in order to contribute to the lives and industries of our customers, and then returning the resources to the earth -- Delicately passing air and water to future generations is the mission that the Air Water Group proudly undertakes.

Eighty years have passed since the establishment of the Air Water Group. We have been successfully expanding our business domains from industrial and medical gases to coal chemicals, seawater chemicals, energy, food products, and logistics. Through this, we have been playing an active and indispensable role in society, a role as substantially vital as air and water itself, a concept reflected in our corporate name. The basis of this expansion is our unlimited affection towards the earth, and our aspiration to be an extraordinary corporation for that purpose. Since the founding of the company, we have been an "expert in air, water and the earth," and we have been striving to effectively leverage the earth resources while never violating the laws of nature.

In an environment where the global economy relentlessly changes, Air Water Inc. has been developing various businesses by capitalizing on a wide-range of business opportunities with its competitive advantage of "consolidated management," which now comprises more than 160 group companies. At the same time, Air Water Inc. has been concentrating its focus on research and development, aiming to be a "technology-driven company." Based on new technologies and business opportunities to be derived from these efforts, we are stepping up our efforts in the business field, which encompasses the entire planet, and which offers unlimited opportunities, so that we may create a noble business which can contribute to the earth.

We at Air Water shall endeavor to be a company that is renewed each day, just like the water we drink and the air we breath, so that we may be the type of corporation that is truly needed by people and by society.

Contents

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

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 various risks and uncertainties. Actual business performance could easily 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
- Our ability to pass 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 kerosene, fuel oil, ocean freight, and air freight
- 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 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 a result of revised or newly implemented environmental laws and regulations
- Risks due to natural disasters
- Other potential risks

The financial statement information contained in this Annual Report is based on the accounting term for the year ended March 31, 2008, and for previous terms as indicated. All other content is based on information available at the time editing of the Annual Report was completed on August 31, 2008.

Consolidated Financial Highlights

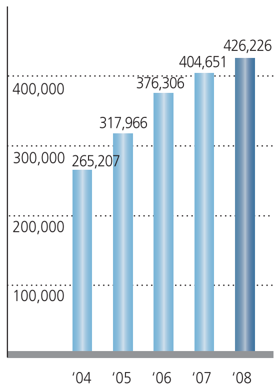
AIR WATER INC. and Consolidated Subsidiaries Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)	Increase (Decrease)
	2008	2007	2006	2005	2004	**2008**	**2008/2007**
Net sales	**¥426,226**	¥404,651	¥376,306	¥317,966	¥265,207	**$4,253,328**	**5.3%**
Cost of sales	**324,910**	307,557	284,517	235,303	187,594	**3,242,291**	**5.6**
Selling, general and administrative expenses	**75,738**	73,997	71,376	64,528	61,602	**755,793**	**2.4**
Operating income	**25,578**	23,097	20,413	18,135	16,011	**255,244**	**10.7**
Net income	**14,503**	11,877	9,648	7,803	5,606	**144,726**	**22.1**
Total assets	**353,399**	329,228	306,366	273,464	239,873	**3,526,584**	**7.3**
Total shareholders' equity	**—**	—	90,894	76,784	69,721	**—**	**—**
Total net assets	**137,992**	118,244	—	—	—	**1,377,028**	**16.7**
Cash flows from operating activities	**21,664**	30,648	23,511	21,876	26,330	**216,186**	**(29.3)**
Cash flows from investing activities	**(36,033)**	(17,213)	(21,903)	(21,607)	(18,105)	**(359,575)**	**(109.3)**
Cash flows from financing activities	**9,801**	(9,615)	656	(1,118)	(10,012)	**97,805**	**—**
Cash and cash equivalents at end of year	**12,524**	16,846	12,876	10,357	10,284	**124,978**	**(25.7)**

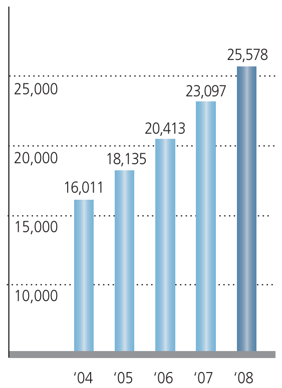
PER SHARE OF COMMON STOCK	Yen					U.S. dollars (Note 1)	
Net income - basic	**¥79.29**	¥72.59	¥61.93	¥50.73	¥36.52	**$0.79**	**9.2%**
Net income - diluted	**78.63**	64.98	54.17	48.05	33.62	**0.78**	**21.0**
Cash dividends applicable to the year	**22.00**	20.00	17.00	14.00	10.00	**0.22**	**10.0**
Shareholders' equity	**—**	—	559.94	506.52	459.85	**—**	**—**
Net assets	**689.41**	641.95	—	—	—	**6.88**	**7.4**

Notes 1. Translation into U.S. dollars has been made solely for the reader's convenience at the rate of ¥100.21= U.S.$1.00, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2008.
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).

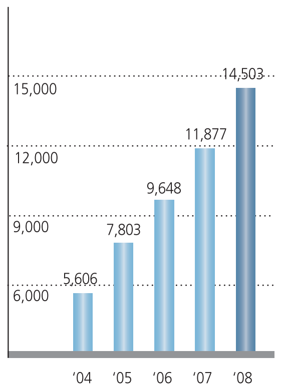
Net Sales (Millions of yen)



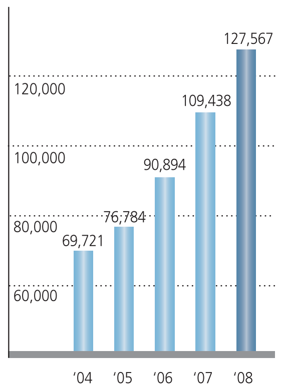
Operating Income (Millions of yen)



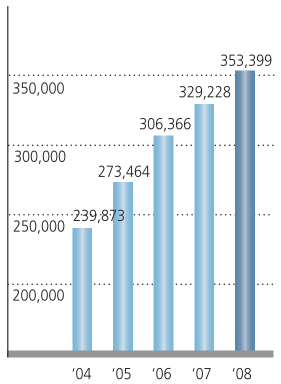
Net Income (Millions of yen)



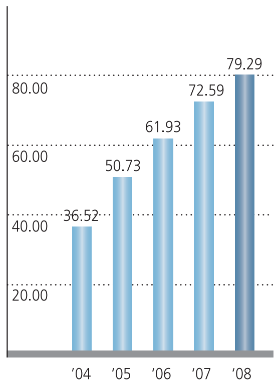
Total Net Assets (Millions of yen)



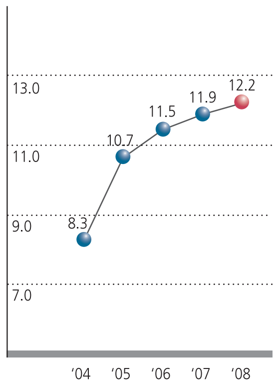
Total Assets (Millions of yen)



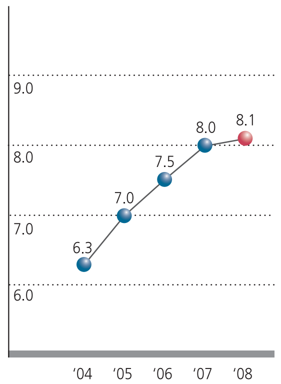
Net Income-Basic (yen)



Return on Equity (%)



Return on Assets (%)



Promoting structural reorganization as we aim to be the commanding presence in the industrial gas industry

For Air Water Inc., fiscal 2007 (the period ending March 2008) was the starting year for "Renovation 330," the new mid-term business plan that aims to implement drastic structural reforms and strengthen earning capacity by concentrating business resources in growth fields for the expansion of business. Thus, it was a very important year for Air Water.

Last year in Japan there was concern about economic stagnation due to financial instability caused by the sub-prime loan issue in the United States and by sharp increases in the cost of crude oil and raw materials. Fortunately, however, the economy remained comparatively steady. Last year, steel producers, who are primary customers for Air Water, achieved the highest production level of crude steel production in 34 years. The electronics industry enjoyed remarkable growth, as did automobile manufacturers and shipbuilders, driven by rising global demand. Levels of production remained high in these manufacturing fields, accompanied by aggressive capital investment.

Overall, with this business environment, our main business segment, the industrial business, performed well due to ongoing and higher demand for industrial gases from the steel industry and electronics industry, particularly in areas of flat panel displays, which encompass liquid crystals, plasma display, and specialized glass.

Our chemical business has grown to become a very significant contributor to new earnings. Good business results were achieved for basic chemicals and fine chemicals in particular due to the tight supply and demand situation of interim products resulting from surging crude oil prices.

Additionally, Air Water has been aggressively working on reforming its medical and energy businesses.

As a result, consolidated net sales for fiscal 2007 totaled 426,226 million yen (an increase of 5.3% compared with the previous fiscal year) and consolidated ordinary income totaled 27,710 million yen (an increase of 8.8% compared with the previous fiscal year) - both record highs for the company. As such, we achieved favorable results in fiscal 2007, an important year for our company as marking the start of our new mid-term business plan, "Renovation 330."

However, "Renovation 330" states that by fiscal 2009 (ending March 2010), Air Water is to achieve consolidated net sales of 470,000 million yen and a consolidated ordinary income of 33,000 million yen. To achieve this, we must strive to further increase sales and profits, and to construct a solid revenue foundation. Although we achieved favorable results for fiscal 2007, I would like to emphasize that this was only a passing stage on the path for Air Water.

Fiscal year 2008, the midway year for "Renovation 330," will be an important steppingstone to the achievement of our goals.

The rising costs of crude oil and raw materials have generated instability, but the steel industry, our primary customer, continues to enjoy healthy global demand, and the consumption of steel products in Japan is also steadily increasing. There are new large-scale industrial projects concentrated in the Osaka Bay Area. There are other indications of the further revitalization of the market as well, and the Air Water Group is aggressively gearing up for these developments.

In addition, we will accelerate our regional expansion by means of VSU technology and will increase activities at our Research and Development Institute, which was completed in October of last year. The Institute is achieving highly original development results through the combination of various technologies, primarily gas technologies and chemical technologies that include a recycling system for PFC (perfluorocarbon) gas and rare gases. The institute is looking to create new forms of enterprise in leading edge business fields.

So while, on the one hand, we are working to reduce costs by promoting greater efficiency in both manufacturing and logistics for all of our business areas, we are also strongly moving forward with the restructuring of our business operations in order to enhance earning capacity.

The secure implementation of these measures is an important step in the achievement of "Renovation 330," and it goes without saying that these very important measures will bring us closer to achieving Air Water's goal of becoming "a company with a commanding presence in the industrial gas industry."

We sincerely look forward to the continued understanding and support of our shareholders and all stakeholders in our business.

H. Aoki

Hiroshi Aoki,
Chairman and Chief Executive Officer
Air Water Inc.

Increased revenue 7 years in a row, increased profits 5 years in a row. Aiming for further growth and development

Air Water launched its "Renovation 330" mid-term business plan in April 2007.

The key concept of this plan is for Air Water to evolve into a highly profitable company. The plan works to strengthen the company's earning capacity in all of its business fields, by promoting reforms to business structures and by concentrating business resources in growth fields. Through this, we aim to achieve a consolidated ordinary income of 33,000 million yen in three years, and drive qualitative advancement toward the realization of a highly profitable company that operates at one stage higher in the business world.

The goals set for the 2009 fiscal year, the last year of the plan, are consolidated net sales of 470,000 million yen, ordinary income of 33,000 million yen, current term net income of 17,000 million yen, an ordinary income ratio of 7%, ROE of at least 12%, and an equity ratio of 40%.

In this interview, Hiroshi Aoki, Chairman and CEO of Air Water Inc., talked about his review of fiscal 2007, and his thoughts on the development of growth strategies for fiscal 2008 and beyond.

Q1 Fiscal year 2007 (the period ending March 2008) was the first year for "Renovation 330," a new mid-term business plan. How do you evaluate the results for this term? Also, did Air Water face any major issues that had to be overcome during the period?

There has been increasing global demand, not only in the steel industry, which is our main customer, but also in fields such as electronics and automobiles. We saw a continued high-level of production activity in manufacturing industries, and I believe that this led to the favorable results we achieved for the Group as a whole.

In evaluating our results, we must consider that we not only achieved our initial goals, we also achieved an increase in revenue for the seventh consecutive term, and an increase in profit for the fifth consecutive term.

The industrial business, which has been positioned as a core business for Air Water, as well as the chemical business, which is becoming a new core of business by supporting revenue and earnings, have both contributed to these favorable results. We also saw a steady increase in sales from the energy business, but overall, the favorable conditions in both industrial and chemical business throughout the year have greatly increased our business results. In addition to increases in net sales and ordinary income, we also saw great increases in the profit ratios of operating income and ordinary income, at 6% and 6.5% respectively.

Conversely, one major issue we faced for the term was that even though sales had increased, compared with the previous year, in the medical business, we saw a decrease in profits for the third consecutive term. I feel that as a business unit, we need to resolve this issue as quickly as possible.

● Consolidated Result (100 millions of yen)

	Fiscal 2007 (Actual)	Fiscal 2008 (Planned)	Year on Year	
			Increase or Decrease	Growth Rate (%)
Net Sales	4,262	4,650	388	109.1
Operating Income	256	280	24	109.3
Ordinary Income	277	300	23	108.3
Net Income	145	160	15	110.3

• Three Basic Strategies of "Renovation 330"

1 Reengineer businesses & boost earning power

2 Creation of technology-driven business and business renovation

3 Reinforce financial position

• Promotion of Mergers and Acquisitions

2007

June

M&A of Saito Medical Industries, Inc.

Part of securing merchandise for SPD (Supply, Processing and Distribution) business. (Saito Medical holds unique technology of painless hypodermic needles.)

August

Made Air Water Safety Service Inc. a wholly owned subsidiary utilizing TOB.

Bought the medical equipment sterilization business from Full Care Seiwa to reinforce our sterilization business, establishing new bases in the Chugoku and Shikoku regions.

September

M&A of Nihonkaisui Co., Ltd.

Strengthening of seawater business

Q2 "Renovation 330" calls for the investment of business resources in growth fields. Please tell us about what has been achieved in this regard.

In fiscal 2007, we spent 26,800 million yen in capital investments. The average amount of investment for the previous five years had been 19,400 million yen, so this was an increase of nearly 40%. This includes very bold investments in new and expanded equipment and facilities for the industrial gas business.

At the Kashima Steel Works of Sumitomo Metal Industries, Ltd., we have spent 4,500 million yen to install a large-scale cryogenic air separation unit. This plant went into operation in January 2008. With this unit, we now have one of the largest argon gas production capabilities in Japan, which allows us to meet the active demand from steel mills.

In just the past 10 years, Air Water has installed gas plants at 11 locations throughout Japan, and we are proud to say that all of these plants operate at a high production level. The speed at which we have been installing new plants is something no other company has been able to achieve, and it would not be going too far to say that this is a good example of the exceptional momentum and vitality that is unique to Air Water.

Q3 How are things going with mergers and acquisitions, business reorganization, and consolidation?

In order to strengthen our corporate structure, we began to aggressively promote mergers and acquisitions eight years ago. In September 2007, we acquired Nihonkaisui Co., Ltd., a top manufacturer in the salt manufacturing industry nationwide, and made the company a member of Air Water Group.

Seawater contains a diverse range of elements, but only a very few of these are being extracted and utilized. In that sense, seawater possesses almost infinite possibilities as a resource. Taking advantage of the opportunities presented to us by making this company part of our Group, we have been promoting the development of technologies to utilize the active components of seawater. In the near future, we hope to pioneer a unique new field which we may call the "seawater industry." This will also go hand in hand with the creation of new business related to "water," an important element in the business concept of Air Water. Of course, we can expect to see a synergistic effect from Nihonkaisui with the magnesia business of Tateho Chemical Industries Co., Ltd. by ensuring a stable security of bittern taken from seawater.

Business reorganization and consolidation are unavoidable in order to realize more efficient business operation and stronger earning capacity. During fiscal 2007 we implemented consolidations in our aerosol business and logistics business to promote efficiency. Starting with the current fiscal year, we will be carefully examining the business details of each group company, and when deemed necessary, we plan to decisively proceed with any necessary reorganization and consolidation.

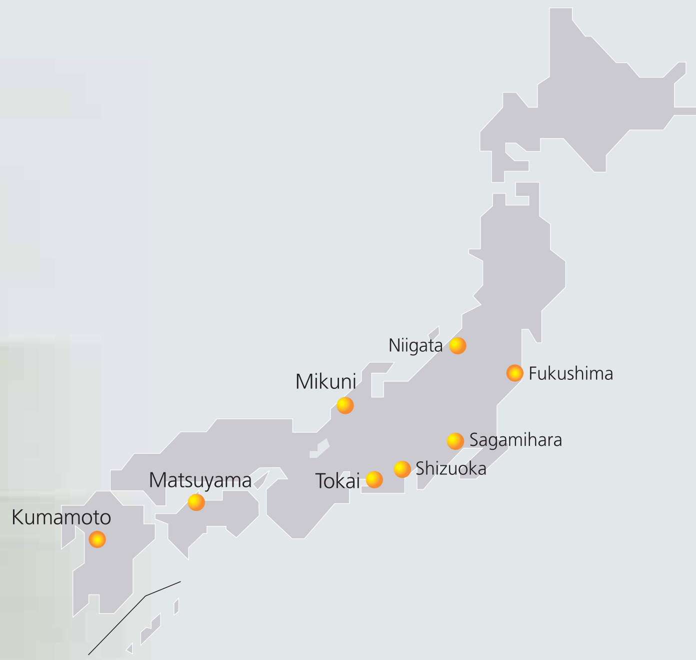
Q4 VSU, which has become core to the industrial gas business, is said to be a business model that is unique to Air Water. Please tell us about the future developments with VSU.

VSU is a compact air separation unit for producing liquid oxygen and liquid nitrogen. Demands for gas are increasing from small to medium scale factories and hospitals, so we are expanding our installation locations. As of May 2008, we had five units in operation in Niigata, Kumamoto, Mikuni (Fukui), Tokai (Aichi), and Fukushima. We later completed two additional units, one in Sagamihara (Kanagawa) and one in Matsuyama (Ehime). We plan to install another unit in Shizuoka by the end of the year.

The original concept behind the VSU was to install the units in areas where there were no equipment or facilities for manufacturing industrial gases. This led to a new business model of meeting regional demand within the region itself, and it brought a major reform to the conventional supply method for industrial gas; conventionally, gas produced at a large gas plant was transported to the place of demand, sometimes traveling long distances. Recently, we have also been receiving inquiries about this business model from local gas dealers, and I think it will not be long before we have 10 of these units installed.

One of the biggest effects of VSU introduction has been the revitalization of local economies. For Air Water as well, the reduction of delivery distances has allowed us to save on distribution costs, and by working in collaboration with influential gas dealers, we have been able to expand our sales network into areas where our sales were somewhat behind those of our competitors.

Another important effect I would like to mention stems from the fact that truck delivery distances have been shortened. This reduces the amount of CO_2 emitted from the vehicles by 3,500 tons per year, so this business contributes to the environment as well.



Q5 Much attention has been given to the large-scale projects taking place in the Osaka Bay Area. What do these projects mean to Air Water?

This refers to four projects being developed in the Osaka Bay Area -- Matsushita Electric Industrial Co., Ltd.'s factories for plasma display panels (Amagasaki) and liquid crystal displays (Himeji), SHARP Corporation's factories for liquid crystal displays and solar cells (Sakai), and the construction of Sumitomo Metal Industries' new blast furnace (Wakayama). Air Water is supplying the industrial gas for all of these projects. These business transactions are very important commitments for Air Water as a manufacturer, but they will also lead to future growth and development for our company. These are long-term projects, and we will respond to these projects through the orchestration of the collective capabilities of the Air Water Group so that we can meet the expectations of our customers.

Q6 What growth strategies do you feel are necessary in order for Air Water to realize sustainable development?

It would be ideal if we could develop our company with an even balance among all of our business segments, but in reality, our company relies heavily on industrial business. For the future, while maintaining and expanding existing core businesses, we must also consider fostering new businesses and reevaluating our existing businesses, and must also consider divesting some businesses. We may also need to adopt a "Product Portfolio Management (PPM)" system by which the necessity of business investments, the creation of effective business synergy, and the allocation of business resources can be efficiently managed.

Q7 Please tell us about your basic policies related to profit sharing with your shareholders, and to your capital policies.

We continue to position the sharing of profits with our shareholders as one of the most important matters in our business operations. Our basic policy is to continue to provide stable dividends that reflect our business achievements, and we would like to aim for a dividend payout ratio of "30% of consolidated net income."

Our equity ratio was 36.1% at the end of fiscal year 2007, an increase of 2.9 points from the previous year. Our rating by a rating agency (R&I) has also improved from an A- to a flat A. Two years ago, another agency (JCR) also ranked us as a "flat A."

We strive to proceed in a direction that continues to emphasize these types of business ratings while also aggressively promoting business development. We hope to continue with capital policies that are well suited to our company as "a company of stable growth."

Q8 What type of company is Air Water striving to become? What efforts must you make in order to build this type of company?

We try to encourage each and every employee to work toward our goal of establishing a commanding presence in the industrial gas industry. For that, we must not be bound by convention. We must undertake new efforts with a forward-thinking and undaunted spirit. In areas such as our M&A activities, which led to industry-wide reorganization, and our VSU, which we see as a new business model for the industrial gas industry, Air Water has taken the lead over competitors. When leading actions are accompanied by significant meaning, a sense of real corporate presence is naturally created. When this is achieved, both the company and its people proceed quickly in a direction of positive change.

My hope is for Air Water to be a company that undertakes the challenges of aggressive change, taking full advantage of the results of the changes while leading the way as an example of what the industrial gas industry should be in the future.

Q9 In closing, could you give a message to your shareholders?

With the exception of business related to food products and energy, much of what Air Water does, that is, business related to industrial gas and chemicals, are things that the general consumer never really sees. Still, these are things that play extremely important roles in the industrial world, and I hope that our annual report helps our shareholders further understand the business activities of Air Water.

We have also positioned CSR (corporate social responsibility) as an important pillar in our business activities. Legal compliance is given top priority in all of our business activities, and we are dedicating our fullest efforts to the achievement of a sustainable society.

I hope that we can continue to receive the support and understanding of you, our valuable shareholders.

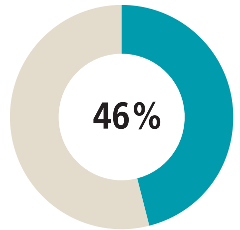
Business Segment	Main Products and Services	Business Introduction	Segment Sales Ratio	Change of Sales by Segment

(Years ended March31)

Industrial Business

- Industrial Gas Production and Sales Business
- On-site Business
- Plant Gas Business
- Engineering Business
- Electronics Business
- Welding Business
- Surface Treatment Business
- Maintenance Business, Aerosol Business, O-ring Business

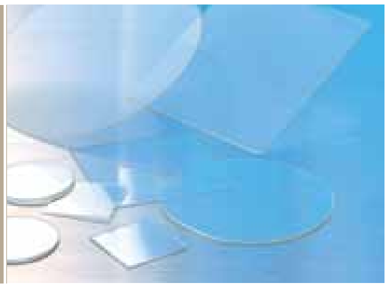
The industrial business is a core business of Air Water that provides industrial gases, a lifeline for all industries, along with innovative technologies and services. We have installed various types of gas production systems, including cryogenic air separation systems such as V1, V2, V3 and VSU at our major and regional locations throughout the country. With our stable supply capacities and services responsive to customer needs, we have established a strong relationship of trust with users.



● Industrial Business (Millions of yen)

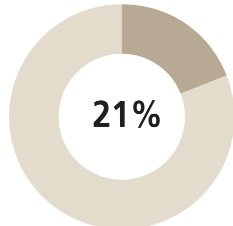
	2008	2007	2006
Net Sales	**194,570**	185,083	169,171
Operating Income	**17,737**	15,921	14,087

Chemical Business



- Basic Chemical Product Business
- Fine Chemicals Business
- Magnesia Business
- Information and Electronics Materials Business
- Bellpearl Business
- Salt Manufacture Business

The chemical business is a new core business of Air Water following our industrial business, and continues to create various unique businesses and optimum technologies, combining our strength in manufacturing, sales, and technology in such areas as the coal chemical business, the magnesia business, and the seawater business. Under the business concept of "creating proprietary technologies able to contribute to the world," we aim for preemptive development, day by day, of technologies which meet the demands of the times, creating synergy between the Shinano Research & Development Institute and other business divisions, and by diversifying our business through aggressive M&A activities.



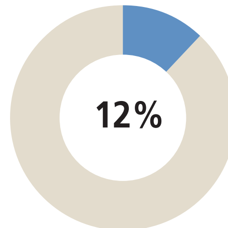
● Chemical Business (Millions of yen)

	2008	2007	2006
Net Sales	**91,329**	78,675	66,213
Operating Income	**3,173**	2,243	2,318

Medical Business

- Medical Gas Production and Sales Business
- Medical Gas Piping Business
- Medical Equipment Business
- Contract Sterilization Business and SPD Business
- Home Medical Business
- Nursing Care Business

We are highly regarded by medical facilities all over the country as a top producer of medical gases. We are confident in our infrastructure, integrating every process from production to supply services, and facilitating services that assure safety and peace of mind. One of our major strengths is our information sharing ability, leveraging M&A and diversified business developments over a wide range of business areas, by which we are able to respond in kind to our customers' trust and expectations. In addition, our aggressive M&A activities of recent years have strengthened our technologies, improved the efficiency of our operations, expanded our product line-ups, and increased our gas supply capacity.



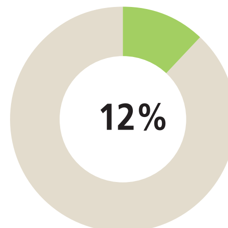
● Medical Business (Millions of yen)

	2008	2007	2006
Net Sales	**51,800**	49,445	42,591
Operating Income	**1,309**	1,522	2,014

Energy Business

- LP Gas and Kerosene Business
- LNG Business
- Natural Gas Business
- Life Solution Business

AWI's LP gas is well known under the brand name of "Hello Gas," and we supply LP gas and kerosene throughout Hokkaido, as well as the rest of Japan, aiming for combinations of energy products optimally matched to customer demand. Moreover, in addition to our natural gas regional supply business in Hokkaido and our cryogenic technology-based LNG business, we offer consumer lifestyle-related products and services, such as those provided by AW-Water as "lifestyle solutions."



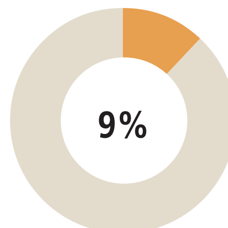
● Energy Business (Millions of yen)

	2008	2007	2006
Net Sales	**51,094**	46,990	46,732
Operating Income	**1,693**	1,500	1,630

Other Businesses

- Logistics Business
- Food Products Business
- ECOROCA Business

In the logistics business, we have proprietary expertise and systems for management and operation. We deal with many types of business logistics, including food logistics that utilize transport technology using equable low temperature and NAT sample transportation. In the food products business, our high-grade frozen foods and high-quality hams and delicatessen produced and sold under the "Shunsetsu" and "Saveur" brands are highly regarded. In the ECOROCA business, we supply eco-friendly wood-plastic construction materials made by compositing or recycling unutilized resources, an expanding market with a focus on public buildings.



● Other Business (Millions of yen)

	2008	2007	2006
Net Sales	**37,431**	44,455	–
Operating Income	**1,664**	1,908	–

※ Effective the year ended March 31, 2008, the companies changed the categories of business to 5, from 6 categories in the past. Accordingly, some figures for the year ended March 31, 2006, were omitted.

Keep our eyes on the next move while demand remains robust

Our industrial business is the core business of Air Water Inc. In fiscal 2007, the level of production and supply of industrial gases remained high overall, including those for the steelmaking sector, and business was also brisk in the semi-conductor, liquid crystal, chemical, glass, automotive, shipbuilding, construction equipment and related sectors. Additionally, we have been expanding the production bases for the compact liquefied oxygen- and liquefied nitrogen-producing system, the "VSU," which precisely meets local demand, and has contributed to reductions in production and delivery costs as well as to regional industries.

As global demand from the steelmaking sector, our main customer, will remain high in fiscal 2008, the domestic manufacturing sector is generally expected to continue stable production activities. Meanwhile, Air Water continues to thoroughly streamline overall production, logistics, and business processes in order to cope with the increase in logistics and raw material costs due to skyrocketing crude oil prices.

Review of Fiscal 2007

Bolstered by active operations and overall stable capital investment in the manufacturing sector, demand for industrial gas remained high. Backed by active demand for steel products, which are mainly crude steel, and which enjoyed record-high production nationwide, as well as by high-quality steel, sales of oxygen and argon supplied on-site to blast furnaces continued to do well. In addition, sales of nitrogen and other gases that are supplied on-site for the flat panel display sector, including liquid crystal displays, plasma display panels, and special glass, continued favorably, since new gas plants, established in response to client plant expansion, continued high-level operation.

Prospects for Fiscal 2008

In addition to the steel manufacturing sector, the flat panel display sector, which encompasses silicon wafers, liquid crystal displays, plasma display panels, and special glass, is expected to continue a high level of production in fiscal 2008.

Furthermore, production of thin-film solar cells – a growing field – is gearing up for increasing demand. Since uncertain factors remain, such as the global financial upheaval and a steep rise in raw material prices following the skyrocketing of crude oil prices, Air Water continues to streamline overall business processes, revamp profitability, and further expand business domains in new regions by leveraging the VSU.

Tokai Ekisan VSU

Industrial Gas Production and Sales Business

Ambitious Development of a Gas Supply System for Flat Panel Plants in the Osaka Bay Area

Air Water is responding to diversified needs from essential and adavanced industries for its distinctive technologies and high-quality solutions – ranging from gas production technologies, such as the cryogenic air separation method, PSA, and membrane separation technology, to process equipment development.

- AWI established a plant in the "Manufacturing Complex for the 21st Century," one of the largest liquid crystal display panel plants in the world, which SHARP Corporation has been constructing in Sakai, Osaka. The AWI plant supplies various industrial gases to each of the enterprises located in the complex, including SHARP.

- AWI has installed a high-purity nitrogen generator in the Matsushita Plasma Display Co., Ltd.'s Amagasaki plant, one of the largest plasma display panel mass-production plants in the world, and is now supplying it with nitrogen gas. In addition, Air Water plans to supply various gases to a state-of-the-art LCD panel plant that IPS Alpha Technology, Ltd. is constructing in Himeji, Hyogo Prefecture.

V1 High-purity Nitrogen Generator

On-site Business
Optimum Means of Gas Supply for Daily Production Activities

This division installs gas production plants inside customer plants in the steelmaking, chemical, electronics and other sectors, as well as adjacent Air Water plants, to supply stably, efficiently and directly the gases necessary for various processes. The on-site business, which directly connects gas production and the sites where produced gases are used, has opened up an original business model – with respect to its versatility – in the industrial gas supply for AWI.

- AWI constructed a state-of-the-art cryogenic air separation system, which supplies industrial gases such as oxygen, nitrogen, and argon on-site at Sumitomo Metal Industries, Ltd.'s Kashima Steel Works (Kashima, Ibaraki Prefecture), which is boosting production to meet the growing global demand for steel. (January 2008)


Kashima Control Room

Plant Gas Business
Meeting Local Demand Locally by Utilizing AWI's Proprietary Technologies

This business division centers on the on-site installation of the V-Series compact cryogenic air separation systems, which are indispensable to industries such as electronics and glass. The plant gas business comprehensively covers manufacturing, supply, installation, maintenance, and management of, as well as backup for such equipment as the V1 to 3 Series of high-purity nitrogen, oxygen, and combined oxygen-nitrogen generators, PSA (pressure swing absorption) type oxygen and nitrogen generators, and the VH Hydrogen Production Using Thermo-Neutral Reforming, which was put into practical use for the first time anywhere in the world.

- AWI established Air Water Hydrogen Co., Ltd. to enhance its hydrogen production business, which is gaining attention as a next-generation energy source. (July 2007)


VH Hydrogen Production Using Thermo-Neutral Reforming

- The fifth VSU liquid nitrogen/oxygen co-production plant came online at Fukushima Ekisan Co., Ltd. (March 2008), the sixth VSU started operation at Sagamihara Ekisan Co., Ltd. (April 2008) and the seventh VSU is up and running at Matsuyama Oxygen, Inc. (May 2008)


Fukushima Ekisan VSU

Engineering Business
Solution Services Provided through Advanced Technologies

In our engineering business, AWI offers a full range of engineering products and services for gas production processes, enabling total support for industrial gases. AWI provides comprehensive engineering services, centering on gas production and handling technologies, by offering cryogenic air separation systems employing its proprietary technologies; absorption/separation refining systems; gas production systems such as gas generating systems for hydrogen; high-purity gas production technologies; separation/recovery technologies; and gas process technologies for various gases, including cryogenic, high-temperature, high-pressure, and vacuum gases.

AWI has two comprehensive engineering companies as affiliates: Shinko Air Water Cryoplant Ltd. and Air Water Plant & Engineering Inc. The two companies meet extensive gas process needs, displaying a high level of expertise in the fields of cryogenic air separation systems and high-purity gas supply.


Fabrication of gas supply systems for semiconductor production

Electronics Business
The Offer of Advanced Technologies Specialized for the Semiconductor Field

This business division offers solutions specialized for the electronics field. Daido Air Products Electronics, Inc. (DAP), the main entity engaged in the electronics business, is a joint venture with Air Products and Chemicals, Inc. of the U.S., and is responsible for the electronics division of AWI. DAP engages in the on-site supply of nitrogen gas, nitrogen trifluoride, and trimethyl silane, and also provides solutions for industrial gases, specialty gases, and chemicals.


Nitrogen Trifluoride ISO Module (40 foot)

- Together with the Research and Development Institute, AWI jointly developed a recovery/refining system capable of the on-site reuse of PFC (perfluorocarbons), which have a high global warming index. The new system can recycle PFC, which was previously dissolved and disposed of. It is the world's first such system that has been put into practical use, and a large-scale liquid crystal plant has already decided to adopt the system.

Welding Business
Making Contributions with High Productivity and Capability to Meet Delivery Time

The welding business covers the production, sales, and supply of "ELNACKS" argon welding gas developed by AWI and the "Aqua Gas Generator," which generates fuel gas for gas cutting.

"ELNACKS," which contains a small amount of oxygen in addition to argon, secured AWI the largest domestic market share for argon welding gas. This product has found favor with the automotive- and construction machinery-related sectors, where improvements in welding quality, process efficiency and total cost reduction are increasingly demanded.

The "Aqua Gas Generator," which generates aqua gas (created by mixing LP gas with hydrogen and oxygen generated by the electrolysis of water), helps increase cutting speed and improve cross section quality. Both "ELNACKS" and the "Aqua Gas Generator" are used in fields such as steelmaking, shipbuilding, automobile manufacturing, construction machinery, and metal processing.


Aqua Gas Generator

Surface Treatment Business
Gas Technology to Improve Metal Surface Hardness and Appearance

This business division has metal surface treatment gas technologies that improve the quality of metal surfaces and add new functions. The NV Gas Nitriding Process, which combines a surface activation process (fluorination treatment) and a gas nitriding treatment, represents the ultimate evolution of gas nitriding. AWI has obtained patents for this process in major countries throughout the world. "NV Pionite Treatment" reconciled hardness and corrosion resistance by limiting applicable material to austenitic stainless steel. "Maizool," which improves water resistance and abrasion resistance at high temperatures over 600°C, is attracting attention as a compound surface treatment technology. The metal treatment technologies mentioned above are widely used in the manufacture of products such as automobile parts, motor parts, and various types of metal molds. AWI also provides outsourcing services using these technologies.


Motorcycle Crankshaft

Maintenance Business/ Aerosol Business/ Mach Business
Each Offering a Wide Range of Unique Solutions

Maintenance Business:
AWI offers total maintenance services, ranging from the maintenance and management of gas processes to increasing equipment lifespan, minimizing environmental impact, and reducing costs.

Aerosol Business:
Air Water Sol Inc., a Group company, produces and markets a wide range of aerosol products, ranging from those used in daily life to industrial-use products, under both AWI brands and OEM contracts.

- To strengthen its technology development capability, Air Water Sol Inc. merged with Kyowa Industrial Co., Ltd. (July 2007)

Mach Business:
Air Water Mach Inc., a Group company, produces high-performance O-rings for semiconductors and LCD production equipment, ultrahigh-performance fluorine-rubber O-rings, and sealing materials essential for automobile parts and consumer electronics devices.


Aerosol Products

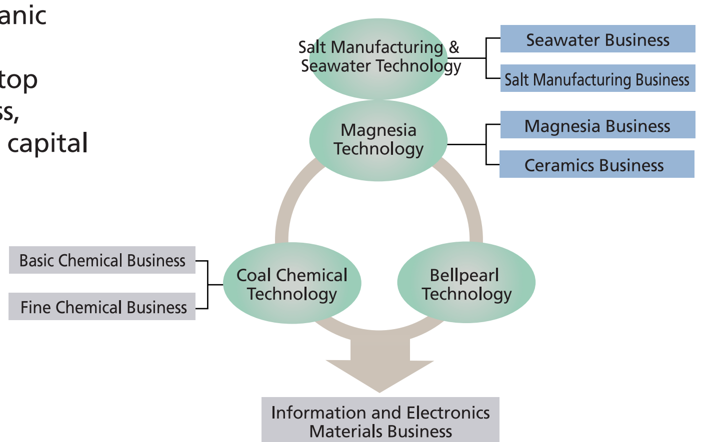

O-rings

Air Water continues to develop stable business strategies that work to develop our chemical business as the secondary core business of Air Water

The chemical business is comprised mainly of the following businesses; the coal chemical business, which develops basic chemicals and advanced fine chemicals; the magnesia business, which sets global market trends with leading technologies; and the seawater business, whose operations leverage marine resources. With these businesses, Air Water has been promoting a wide range of activities for organic and inorganic chemicals.

Air Water brought Nihonkaisui Co., Ltd., the top firm in the domestic salt manufacturing business, under its group umbrella, and also increased its capital share in Inoueki Co., Ltd., a trading company specializing in chemical products and having a sales and distribution network covering Kyushu and Eastern Asia. As such, Air Water has been accelerating its strategic investment in the magnesia business and the information and electronics materials businesses, and aims to expand and develop the chemical business as a whole.

■ Scope of Chemical Business



Review of Fiscal 2007

Performance was high in the purification business of coke oven gas for steelworks, basic chemicals such as crude benzene that are used to make various types of chemicals, and the tar distillation business operated by C-Chem Co., Ltd., one of our affiliates. In the fine chemicals sector, sales of agrochemicals and pharmaceutical intermediates grew smoothly.

Tateho Chemical Industries Co., Ltd.'s production of magnesium oxide for electrical steel sheets remained high. This agent is indispensable to the production of world-class electromagnetic steel sheets that are used in electrical infrastructures, including large transformers. Pricing correction also contributed to increased sales.

As a result, net sales grew 16.1% year-on-year to 91,329 million yen.

Prospects for Fiscal 2008

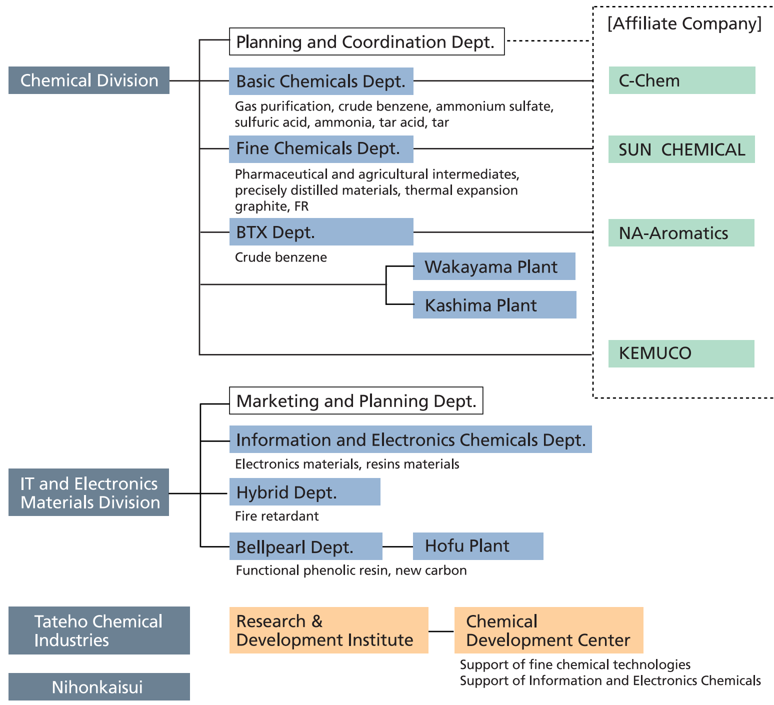
The crude benzene and tar distillation segments of the basic chemical business are expected to remain healthy. In the fine chemicals field, uses of functional chemicals such as thermally expandable graphite have diversified, and demand for such chemicals is projected to continue growing forward.

Magnesium oxide for electrical steel sheets and electrofused magnesia used to produce insulating materials for heaters are each the result of one-of-a-kind technologies, and the production of these products is likely to remain active in the years to come.

Nihonkaisui Co., Ltd., Japan's largest manufacturer of salt, became a member of the AWI Group in September 2007. As a result, we are now enabling the securing of a stable supply of bittern, a raw material of magnesium oxide for electrical steel sheets, and full-scale synergistic effects from the addition of this salt maker are expected to be realized starting in fiscal 2008.

Tar Distillation Plant at the Kashima Plant

■ Chemicals Division - Organization



Light-burned Magnesium Oxide/MAGSTAR®

Basic Chemical Business
Providing the Market with Coal-derived Chemicals as One of the World's Leading Producers

AWI produces coal-derived chemicals such as benzene, toluene, and xylene (collectively referred to as BTX; used for styrene monomer and solvent), crude benzene (used to make benzene and toluene), ammonium sulfate/sulfuric acid/liquid ammonia (used to make fertilizer and industrial chemicals), coal tar (raw material for tar distillation), road tar (used to make briquette binder for cokes) and tar acid (used to make phenol resin and electric wire varnish), and provides the market with products that meet customer needs.

C-Chem Co., Ltd., a joint venture between Nippon Steel Chemical Co., Ltd. and Air Water Chemical, was established in October 2004 and has the largest tar distillation capacity domestically in the tar distillation business.

Fine Chemicals Business
Developing and Producing Advanced Tar-based Materials

The fine chemicals business is focusing on the development and production of high-quality, high-value-added products based on the advanced separation and synthesis technologies AWI has accumulated over many years.

AWI offers unique tar-based materials such as quinoline, quinaldine, isoquinoline, and indole, and markets methylnaphthalene (a raw material for agrochemicals and used for feed additives), pharmaceutical intermediates, agricultural chemical intermediates, electronics materials (raw material for polyimide, semiconductor sealing material and used for CMP additives), information materials (used for information materials), thermally expandable graphite (used for automobile seats and flame retardant), FR (used as a rubber additive) and sodium bisulfite (a raw material for nutrients and used for acrylic fiber catalysts).

AWI will strive to promote global operations, including the procurement of raw materials, production and sales overseas.

As sales of pharmaceutical intermediates are increasing, AWI is strengthening its GMP (Good Manufacturing Practice)-compliant equipment lineup in order to expand its customer base.

Information and Electronics Materials Business
Proactively Developing New Merchandise and Businesses for Semiconductors and Display Materials

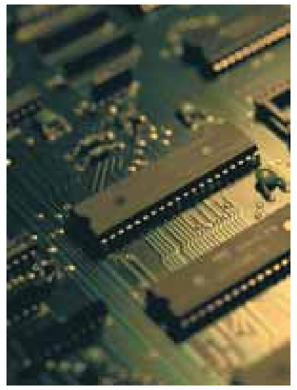
AWI produces materials that are indispensable to the electronics industry, such as raw materials for LCD films and semiconductor sealing materials, chemical mechanical polishing (CMP) slurry additives, and materials for capacitor electrodes.

In 2007, AWI launched a new product, a CMP slurry supply system that is required for the production of high-speed, highly integrated semiconductor devices. The system has been adopted by multiple domestic semiconductor manufacturers.

AWI also took an equity stake in Inoueki Co., Ltd. (head office: Fukuoka City), a trading company specializing in chemicals, which is expanding its operations from its main business base in the Kyushu region to the rest of Asia (April 2008). We will strive to expand sales channels for existing products, optimally utilizing Inoueki's meticulous marketing capabilities in Japan and the expansive network in the Asia region as a whole. Air Water will also work to create business synergy by ensuring new marketing opportunities, and through these efforts, establish a foothold for further expansion in the electronics business field.

GMP-compliant Plant at the Kashima Plant

Pharmaceutical Intermediates



IC Chips (examples of information and electronics material applications)

Functional Materials (TEG; thermally expandable graphite)

Bellpearl Business
Bellpearl Is Highly Valued as a New Material for Producing New Merchandise

Bellpearl® is a new type of resin with substance patents registered both in Japan and overseas. As a functional, particulate phenolic resin, it is completely different from previous phenolic resins. It is here to stay as a new material used to produce new merchandise with a high degree of versatility and low environmental impact. Its primary particle size is approximately 1 μm to 20 μm. Thanks to its high-heat resistance, environmental safety, and other properties, Bellpearl is widely used for refractories, adhesives, composites and carbon materials in fields such as steel, ceramics and motor parts.

Bellfine (activated carbon), a functional new carbon, is made from Bellpearl through highly controlled firing conditions. AWI is working on the new application of Bellfine as a carbon material that offers totally new functions, through the strict control of the chemical properties of its pore diameter and pore surface.

Currently, this resin is utilized as an electrode material for electric double-layer capacitors in cellular phones, and, in the future, is set for development as an electrode material for hybrid cars.

Magnesia Business
Commercializing Abundant Ocean Resources with Proprietary Technology

The magnesia-related business is a unique business developed by Tateho Chemical Industries Co., Ltd., and which aims to create totally new materials with world-leading, top-class technology by making effective use of the bittern that remains after salt is separated from seawater.

Tateho Chemical Industries is developing its global marketing activities in order to provide highly functional products, including magnesium oxide (an annealing separator for electrical steel sheets), electrofused magnesia (which holds a large market share as an insulating material for electric heaters), single crystal magnesia (which boasts the world's largest market share for superconducting thin film-making substrates), and magnesium hydroxide (which is utilized as a plastic flame retardant), each of which is created based on the Company's proprietary crystal control technology.

Salt Manufacturing Business
Safe and Tasty Salt by the Ion-Exchange Membrane Enrichment Method

Nihonkaisui Co., Ltd., with the top share of the domestic salt manufacturing market, is engaged primarily in the development of business utilizing marine resources. This includes the salt business, selling and producing salt for industrial and household use, the environmental business, utilizing magnesium hydrate for smoke elimination, and READ-F for high-grade water treatment. Its Onahama Plant (Iwaki, Fukushima Prefecture), Ako Plant (Ako, Hyogo Prefecture) and Sanuki Plant (Sakaide, Kagawa Prefecture) manufacture salt by the Ion-Exchange Membrane Enrichment Method, a breakthrough technology invented in Japan, enabling a stable supply of salt for the whole of Japan from each plant.

Nihonkaisui was founded on the philosophy of "producing foods, promoting health, and contributing to better lifestyles through technology that synergizes humankind and the sea." As a leading salt company established on the business foundations of stable operation and quality improvement, Nihonkaisui continues to provide safe and reassuring products and services.

Bellpearl New Carbon

Electrode Material for Electric Double-layer Capacitors

Salt Manufacturing Plant at the Nihonkaisui Ako Plant

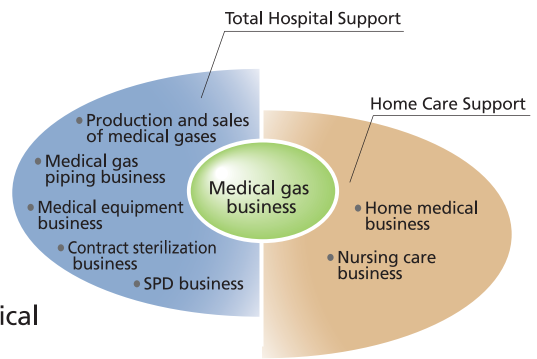
Steadily reforming our earnings structure to cope with a harsh business environment

The medical business comprises both the medical division and the SPD (Supply Processing & Distribution) division. In each sector, we engage in business activities to provide products and services that are indispensable to the frontline of medical care, medical gases in particular, as a total supplier capable of meeting all types of medical needs.

Earnings for our mainstay medical oxygen supply business grew satisfactorily, thanks to the development of new hospital clients. We also improved profitability through a local integrated system of production and sales and improved logistic efficiency, as a result of leveraging the local VSU-based production facilities which we have established.

The state of affairs of the medical business is harsh, as the number of large hospital equipment installation projects is decreasing and competition in the nursing care business is growing stronger. We will continue to strive to shift to a more highly-profitable business framework by creating new products and businesses developed through in-house technologies – such as the development of a gas pharmaceutical product – as well as implementing business structural reform.

■ Medical Division - Organization



Review of Fiscal 2007

Net sales in the medical business grew 4.8% year-on-year to 51,800 million yen in fiscal 2007, thanks to the expansion of medical gas demand and the utilization of local production facilities equipped with VSU.

AWI made Saito Medical Industries, Inc. (head office: Ohtawara, Tochigi Prefecture) a Group company as of June 1. Saito Medical, a manufacturer specializing in hypodermic needles, boasts patented technologies, including a patent on a four-side cut needle designed to reduce pain, and enjoys wide recognition throughout the world. We bought the medical equipment sterilization business from Full Care Seiwa (head office: Hiroshima) in August. We also made Air Water Safety Service Inc. (head office: Kobe, Hyogo Prefecture) a wholly owned subsidiary as of August 12. Air Water Safety Service has a track record in medical gas piping and equipment work, with the production and sales of medical equipment, fire extinguishing systems and respirators as its mainstay businesses.

Prospects for Fiscal 2008

Medical equipment and hospital equipment installation work are facing a harsh business environment due to a decrease in the number of large projects. We will continue to proactively proceed with structural reforms to enhance profitability.

Our major challenges include the securing of earnings from our mainstay product, medical oxygen, by developing new client hospitals to which we can supply medical gases, the improvement of efficiency in both the production and logistics of medical oxygen through linkage with local production facilities equipped with VSU, and the establishment of a system for more stable supply.

Turning Air Water Safety Service into a wholly owned subsidiary will bring about innovation in the fields of gas supply technologies and equipment production technologies, based on the full application of high-pressure gas control technologies of the new subsidiary, and will produce synergy between the industrial business and the medical business. The two businesses are expected to contribute to the improvement of the corporate value of the Air Water Group as a whole.

Medical Center at Shonai (SPD･Sterilization)

Artificial Air System for Medical Use

Kanto Total Medical Center (Sterilization)

Medical Gas Production and Sales Business
Supplying Medical Gases to Medical Institutions Nationwide

AWI produces and sells medical gases such as oxygen, nitrogen, anesthetic gases, sterilization gases, and helium for magnetic resonance imaging (MRI), and boasts the largest share of the Japanese market for these products.

One product that we are currently promoting to medical institutions is the artificial air generating system. The system generates gas created by very precisely mixing medical oxygen and medical nitrogen (in a ratio of approximately 22:78). The gas is called "artificial air," since it is extremely clean and can be supplied at almost the same composition as that of ordinary air. The system provides a constant supply of clean air on-site at medical institutions.

With a tank truck-based backup system already in place, we have a proud record of product adoption by large medical institutions nationwide.

Medical Gas Piping Business
Reliably Supporting Sophisticated Medical Sites with Advanced Technology

AWI's medical gas piping business involves the introduction, installation and piping work of facilities and equipment for supplying medical gases to operating rooms, intensive-care units (ICUs), patient wards, and other hospital areas, according to the size and functions of each hospital. Air Water Safety Service, now a wholly owned subsidiary of AWI, developed this field ahead of other firms and has been recognized by medical institutions for the scope of its installations and its successful track record.

Air Water Safety Service has succeeded in offering total solutions, not only the installation of supply pipes, but also total solutions for operating theaters, including interior layout, equipment, photocatalyst antibacterial wall panels, and lighting equipment. We are realizing steady results in this field.

Medical Equipment Business
Offering New Products and Expanding Product Lineups

AWI has a long history of supplying respirators and equipment directly related to medical gases. We have also formed business alliances and concluded dealer contracts with various leading global manufacturers, such as Sechrist Industries Inc. and Cardinal Health, Inc. of the United States. This has enabled us to offer hyperbaric oxygen chambers, ventilators, incubators, and artificial resuscitation systems, as well as frozen umbilical cord blood storage and other cryopreservation systems.

In recent years, AWI has expanded its specialized knowledge and technology, including hypodermic needles and cardiovascular system-related equipment, thanks to the synergistic effects of M&A activities involving Nishimura Kikai Co., Ltd. and Saito Medical Industries, and has earned on-the-ground medical trust .

Incubator GIRAFFE

Operating Room Equipment

Contract Sterilization Business and SPD Business
Supporting High-quality Medical Business through Integrated Production and Sales Systems

Our contract sterilization services – collecting surgical equipment from medical institutions, treating it with gas sterilization at dedicated plants, and delivering it back to the medical institutions – are solution services capitalizing on the specialized skills of a medical gas supplier, and are widely marketed as part of the contract sterilization business. AWI's contract sterilization services, which utilize sterilization gas to sterilize medical equipment, can handle medical equipment made from any type of material. As a result, our services contribute not only to the rationalization of hospital management but also to the prevention of in-hospital infection.

In the SPD business, AWI signs package service contracts to manage the inventories, order receiving, and order placement of medical materials such as hypodermic needles and gauze. We are aiming to develop new markets in step with the entry of our sterilization business into the Chugoku and Shikoku regions.

Home Medical Business
For Long-term Peace of Mind at Patient Homes

Respiratory disease patients with chronic respiratory failure or pulmonary hypertension who have difficulty visiting a hospital regularly, those who wish to be treated at home, and those who need care after leaving a hospital, require long-term respiratory management. In this sector, AWI supports home medical care by providing oxygen concentrators, stationary type liquefied oxygen reservoirs, and portable oxygen cylinders.

In addition, we also offer a full lineup of home artificial respirators and relevant products for those who need continuous ventilation support (oxygen therapy).

We will endeavor to establish a full home medical support system with a carefully thought out network based on close relationships with local communities.

Nursing Care Business
Providing Multifarious Businesses and Services for an Aging Population

This division multilaterally provides services for our rapidly aging society, based on the expertise AWI's medical business division has accumulated, and leveraging this in the field of welfare and nursing care.

AWI provides a wide range of services, merchandise and businesses: the nursing care business, including visit nursing, visiting care, and care management; operation of "Ai-Land" shops for the sale and rental of welfare equipment; sales of the "Viami"-series assisted bathing systems, which have changed the concept of conventional shower bathing; operation of group homes; and support for relevant welfare facilities. We aim to make the "supporting-supported" relationship as amicable and comfortable as possible.

PVE3000 OXY
Oxygen Concentrator (For Medical Use)

"Viami" Shower Equipment for Nursing Care Use

"Ai-Land," an outlet for the sale and rental of welfare equipment and supplies.

Transition to a profit-creating structure through efforts to boost competitiveness

The most turbulent times ever for sales of LP (liquefied petroleum) gas and kerosene were in the past year, due to price hikes in crude oil, and climatic factors such as a record summer heat wave and an unusually warm winter.

However, the energy business itself was able to remain steady, as we steadily pushed forward with a combination of various measures, including a shift from the wholesale to the highly profitable retail business, and further logistics rationalization.

We will strive to reinforce our business structure and profitability by proactively promoting the enhancement of the retail business, which is one of the major pillars of our mid-term management plan and part of our structural reform of the energy business, further enhancing the competitiveness of the already favorably performing LNG (liquefied natural gas) business, and further expanding the water business.

Review of Fiscal 2007

The LP gas business environment displayed dizzying levels of activity in fiscal 2007, as exemplified by skyrocketing crude oil prices, the resulting rises in LP gas prices, and the intensification of competition with other energy sources such as electric power and city gas.

Under such circumstances, AWI endeavored to improve the direct sales ratio by proactively purchasing commercial rights of retailers in the LP gas/kerosene business.

In the natural gas business, which is now in its eighth year, supply increased smoothly, backed by vigorous production at the Chitose Rinku Industrial Complex, a facility to which AWI supplies natural gas via pipelines. The number of orders for large 40-foot (c.12 meter) LNG tank containers increased.

As a result, net sales in the energy business increased 8.7% year-on-year to 51,094 million yen.

Prospects for Fiscal 2008

With respect to the outlook for the trend in crude oil prices, no one can tell how the situation will develop. Against this backdrop, we will strive to improve the direct sales ratio in the LP gas/kerosene sector as in the previous fiscal year, by continuing to push forward with structural reform, including enhancement of the retail business. We will further promote cost reductions in order to implement rationalization more thoroughly.

In the natural gas business, supply is projected to remain steady, as the number of corporations moving into the Chitose Rinku Industrial Complex grows.

AWI launched a new 14-ton tank truck for LNG tank containers. The prospects for the growth in sales of the new tank truck in the future are good, since large-capacity tanks reduce the number of trips and help customers cut costs and reduce accident risk. We will make the most of the new tank truck in order to expand the LNG supply business.

LP Gas/Kerosene Business
New Business Model Launched for Stable Supply and Rationalization of Distribution

AWI's LP gas business in Hokkaido has a history of over a half century, and its gases have become a familiar energy source in Hokkaido. "Hello Gas" is not only a major brand of LP gas in Hokkaido, but has a wide network ranging from the Chubu Area to Tohoku regions. It is used widely for residential and industrial applications, and in automobiles.

AWI has also been focusing on sales of kerosene for water heating in the cold regions, and has been promoting the optimal utilization of various energy sources, such as LP gas and kerosene in the Hokkaido region.

Air Water Energy Inc., an LP gas sales company, successively established and started operations at two LP gas joint delivery companies: "Asahikawa Energic" and "Hakodate Energic." Though there are precedents for joint filling companies, the newly established companies are the first joint delivery companies. They are attracting attention as a new business model aimed at ensuring stable supply to consumers and improving distribution efficiency.

LNG Business
Improving the Efficiency of LNG Transportation with the New, Large Capacity Tank Truck

Demand for LNG, which discharges less carbon dioxide than coal and petroleum-based fuels, is expanding, partly because of its utility in the fight against global warming. LNG receipt and supply is administered by the Solutions Division, which, as well as being responsible for the LP gas business, also looks after the core energy business.

LNG tank containers were developed for transporting LNG via rail or road. AWI developed a large, new 14-ton tank truck in addition to the mainstay 40-foot LNG tank container, which boasts the largest market share in Japan. We succeeded in reducing weight by integrating a tank container with a truck chassis to make a tank truck, not for transshipment to ship or railway. The 14-ton tank truck will be our trump card in the rapidly growing LNG market.

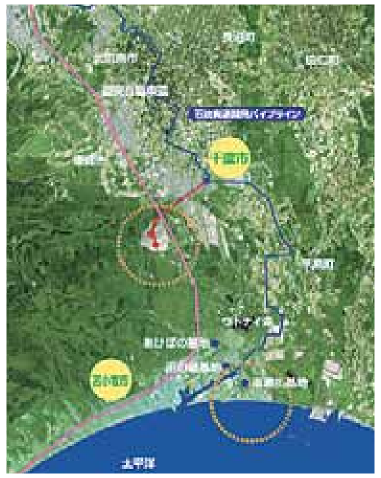
14-ton Tank-Truck

Natural Gas Business
AWI's Pioneering Work in the Natural Gas Business Steadily Bringing Returns

In 1999, AWI established the Chitose Natural Gas Supply Center on its site in the Chitose Rinku Industrial Complex, thereby entering the natural gas business for the first time as an industrial gas manufacturer.

Japan's largest natural gas field is in the Tomakomai City/Yufutsu region. Natural gas produced in this field is transported to Sapporo via pipelines of 100km or more in length. AWI built dedicated pipelines of about 10km in length from the Chitose Branch and supplies natural gas to corporations in the Chitose Rinku Industrial Complex via these pipelines.

AWI is also focusing on cogeneration powered by LP gas and natural gas. We have developed micro cogeneration (MC) systems ranging from 5 to 25 kW and provide them to facilities with large heating demand such as plants, hospitals, welfare facilities, restaurants, and hotels.



Pipeline for Exploiting the Oil Resource

SHOWROOM MIX offers New LP gas Life
A Space for All to Experience the Convenience and Comfort They Seek

AWI's "FUREAI SHOWROOM MIX," located in 10 areas of Hokkaido, uses the concept of "Energy & Reform" to let visitors actually experience LP gas as a clean energy and a mainstay in various areas of everyday living.

The FUREAI SHOWROOM MIX has housing facility displays, such as system kitchens and system baths, to present three scenarios promising new comfort in daily life; "Living with Fire," "Living with Beauty," and "Living with Pleasure."

The showrooms attract visitors as a place to encounter new possibilities for LP gas in one's own living space. Many visitors connect with the concept of the showrooms, saying that "the showrooms sum up everything we want" and "represent a new way of future living."

Water Business
Providing Highly Pure, Safe, and High-Quality Water on Large Scale

"AW-Water" was developed as high-quality water that is very clean, tasty, and safe.

AWI achieved the smooth taste by mixing rich minerals such as calcium and magnesium, which make water tasty, with extremely pure water containing almost no impurities, obtained by removing disease-causing germs and endocrine disrupters from water using nanotechnologies such as a filter with purification holes one-ten millionth of a millimeter in size (a reverse osmosis membrane). We deliver this AW-Water to houses and offices by way of a convenient door-to-door delivery service.

Enhancing our business operations in fields closely linked to daily life

The Air Water Group develops various businesses, ranging from everyday living-related distribution and food, to wood materials for construction purposes that maximize the potential for reusability.

Beyond just carrying the materials themselves, we also provide logistics services from ordering to receipt, pick-up, optimal inventories, vehicle arrangements, to delivery, we in the logistics business have been able to increase the volume of shipments, bolstered by the direct selling system and an integrated production-sales process.

In the food products business, we leverage our cryogenic technology to specialize in high-end frozen foods and high-quality ham and delicatessen products. We have been steadily expanding sales channels while catering to the market need for delicious, fresh and safe food products.

The ECOROCA business was established to promote the utilization of previously unused resources. This business plays a positive role in contributing to the creation of a sustainable society by providing wood materials and wood plastic composites that are exceptionally friendly to the environment.

Review of Fiscal 2007

The logistics business faced a difficult business environment, significantly affected by skyrocketing crude oil prices and partly due to increases in vehicle maintenance costs. However, the business as a whole remained strong, with contracts awarded by large-lot customers in the sector of food logistics based on our proprietary transport technology that utilizes Equable Low Temperature, and consignment by the Japan Red Cross Society for the transport of blood plasma and NAT (nucleic acid amplification test) samples.

Profitability of the food products business improved as a result of an organizational improvement of sales merchandise, although the business was affected by the increase in the prices of raw materials for agricultural and marine products. Sales of ham and delicatessen products (processed meat products) expanded, centered on the restaurant and home meal replacement (ready-to-eat food items and box lunches) markets.

As a result, net sales in other businesses amounted to 37,431 million yen (no year-on-year change figures are available, as the segment structure has been revised).

Prospects for Fiscal 2008

In the logistics business, AWI reorganized what had been four nationwide logistics companies located into three business companies: Air Water Specialized Transportation Inc. (in charge of Hokkaido), Eastern Japan Air Water Specialized Transportation Inc. (in charge of eastern Japan) and Western Japan Air Water Specialized Transportation Inc. (in charge of western Japan). Through this reorganization, we have not only been able to consolidate regional logistics, but are also able to build business strategies that take advantage of regional features.

In the food products business, agricultural products, ham and delicatessen products are expected to grow, mainly in the home meal replacement market. In particular, we started up a uncured ham laboratory to improve production technologies and develop new merchandise. Sales of uncured ham are expected to grow further, as our ham has been adopted by many restaurant franchise operators, convenience store chain franchise operators, and major supermarkets.

High-pressure Gas Tank-Truck

Logistics Business
Established a Prompt, Reliable Supply System, Focusing on Transport Technology That Utilizes Equable Low Temperature

AWI's logistics business provides logistics services, including housing equipment logistics, focusing on third-party logistics business, and accepting contracts for complete logistics services in everything from imports and domestic delivery to production and sales.

AWI has a particularly strong track record in transportation employing low-temperature technologies. It has been awarded a transportation contract by the Japan Red Cross Society, while the volume of food distributed also increases annually. In housing equipment logistics, we accept contracts from manufacturers of housing materials.

AWI's logistics business is handled by four consolidated subsidiaries, including Air Water Specialized Transportation Inc., and 55 logistic subcontractors. With more than 2,100 trucks, a network connecting 111 company locations, and affiliates located nationwide, AWI has established a prompt, reliable supply system.

Food Production Business
Production and Sales of Safe, Reliable, High-quality Frozen Food and Ham and Delicatessen Products

Saveur SS Inc. (Syunsetsu Saveur) engages mainly in production and sales for two kinds of business: high-quality frozen foods utilizing AWI's cryogenic technology, which seals in freshness and flavor at a temperature of –196°C; and ham and delicatessen products produced with a high level of workmanship from safe, carefully selected raw ingredients under thorough quality management.

Products developed to meet customer expectations are sold nationwide under the Saveur brand for the commercial market and the Shunsetsu brand for the consumer market. The company's uncured ham in particular is highly valued by a wide range of customers for its taste, flavor, and texture, and as a leading brand in the industry is supported by continued research and development.

Straight Bacon,Uncured Ham

The company is also striving to further expand the business by introducing various sauces, such as duxelles sauce, americaine sauce, and genoa sauce, as well as Peruvian-made apple mango sauce.

ECOROCA Business
New Eco-Friendly Wood Plastic Construction Materials Made from Recycled Waste Wood and Plastics

ECOROCA is an environment conscious wood-plastic composite material made by mixing used wood and plastics, which are reduced to powder before being granulating and heat-shaped. It is drawing attention as "a wood that betters wood."

ECOROCA has the texture and natural, warm appearance of natural wood while offering excellent weatherability, durability, water resistance, formability, and dimensional stability. Thanks to these features, ECOROCA is widely used as decking material in single-family houses and condominiums, as well as for louvers and fencing material for public facilities.

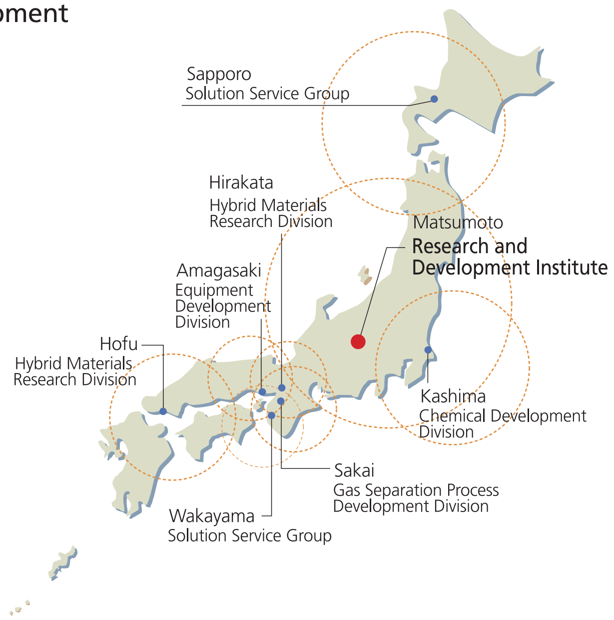
AWI is making proactive efforts to further expand the ECOROCA business, forming a business alliance for production and sales with Hokushin Doken Inc. (head office: Nagano City) in 2008.

ECOROCA at Koshigaya Lake Town

Air Water's new Research and Development Institute integrates the group's intellectual properties and technological development capacities to forge new paths for future development

Today, technological renovations and innovations play increasingly important roles in the economic growth of business. At present, Air Water Inc. is placing great emphasis on the development of innovative products and services that distinguish the company from others. Through M&A, we have gained a diversified research and development orientation, and as a company that has accumulated a vast amount of intellectual property, we are embarking on a course of technological renovation for our Group as a whole, with a focus on the Research and Development Institute.

Research and Development Institute



Opened in Matsumoto City, Nagano Prefecture, in August 2007

Air Water is currently promoting the idea of the creation and renewal of business through technological capabilities as a main pillar in our "Renovation 330" plan as we strive to be a "technology-driven company." Central to this is the Research and Development Institute, which opened in Matsumoto City, Nagano Prefecture in October 2007.

The research and development bases of the Air Water Group were distributed in eight locations across Japan: Sapporo, Kagoshima, Matsumoto, Sakai, Hirakata, Amagasaki, Wakayama, and Hofu. The Research and Development Institute provides a venue for gathering the intellectual resources accumulated at these various bases, and bringing them, as well as the engineers, together in Matsumoto for a cross-sectional fusion of technologies that goes beyond the boundaries of each field. Through this, we aim to create original technologies and new types of business.

These research bases will also be playing a new role: to utilize whatever is necessary in order to ascertain customer needs for each type of business or field and provide feedback to the Research and Development Institute in Matsumoto. The Institute functions as an applied research center for various business fields as well as a general liaison point for the research and development needs of each field.

Thus, we have constructed a network linking the Research and Development Institute in Matsumoto and our seven research bases throughout Japan, allowing us to strengthen the "point to plane" development of our research and development system.

Fiscal 2007 Achievements of the Research and Development Institute

The Research and Development Institute aims to bring together the technologies of the Air Water Group and take full advantage of cross-sectional synergistic effects, not only in the conventional industrial gas field, but also in advanced fields that include new materials, medicine, and electronics. For example, by combining groups working in the electronics field and in new material development, it may be possible to develop new types of advanced materials.

The following is a list of the primary achievements of the Research and Development Institute for fiscal 2007. In all cases, development projects undertaken by research bases in specific fields were brought together in Matsumoto, where a greater level of completion could be achieved.

● Main Achievements in Fiscal 2007

Industrial Gas Field

- Enhanced performance and reduced energy use achieved for gas separation systems such as the VSU, V1 Series, and PSA.
- A hydrogen generator (the VH Series) is currently being developed on-site.

New Materials Field

- Development of mass production technologies for advanced liquid crystal materials.

Medical Field

- Successfully developed a gas pharmaceutical product for treating hypoxic respiratory failure in newborn infants. This product has received Pharmaceutical Affairs approval as a new pharmaceutical.

Electronics Field

- Development and marketing of a CMP slurry delivery system.
- Development and marketing of equipment for PFC recovery and refining systems.

The PFC recovery and refining system (see the corresponding column for additional information) represents a major achievement in this field. The development of this system is a trump card for the reduction of greenhouse gas emissions at semiconductor and liquid crystal manufacturing plants. By combining the "recovery system" that DAIDO AIR PRODUCTS ELECTRONICS, INC. (DAP), a Group company, worked on the development of, with the "refining system" newly developed by our Research and Development Institute, we will provide new options for recovery, refining, and reuse to PFC processing and reduction methods. These products are the first in the world to be offered as a PFC recovery and refining system.

At present, we are continuing to transfer the various research results achieved at each research base to the Research and Development Institute, and by combining and fusing these technologies, we are aiming to develop, in the near future, technologies that are the first of their type in the industry or the first of their type in the world, and to create new types of business that will create the second and third generations of business for Air Water.

Home Oxygen Concentrator

Column

PFC Recovery and Refining System

PFC (perfluorocarbon) gas is used in large quantities by the electronics industry in manufacturing processes, but has an extremely high heating coefficient that is 6,000 to 22,000 times higher than that of CO_2. As such, the industry has voluntarily set reduction goals for PFC emission. DAIDO AIR PRODUCTS ELECTRONIC (DAP) has been taking the lead since 1997 in efforts to develop technologies for reducing PFC emissions, and completed its PFC recovery system in 2004. DAP began commercializing the system in 2005. The primary method for decreasing PFC is elimination, which uses thermal decomposition or fuel to detoxify the gas emitted from a process. The recovery and recycling method, however, offers the advantages shown in the accompanying chart compared with the elimination method, and is the ideal method for processing PFC waste gas.

The refining equipment which we have developed and commercialized increases the purity of recovered PFC to 99.999% or higher, the same level of purity as source gas. We have been able to realize this through the development of original Vacuum Pressure Swing Adsorption (VPSA) technology. The development and practical application of this apparatus allows us to realize our 3Rs (Reduce, Reuse, Recycle), and goes a long way towards reducing energy and resource consumption in various processes.

PFC Recovery and Refining System

Contributing to a reduction in greenhouse gas emissions with a system for recovering and recycling the PFC gas that is indispensable to semiconductor manufacturing processes.

■ Advantages of the PFC Recovery and Recycling System

Effect	Reason
Energy savings	Non-thermal decomposition of PFC.
Resource savings	PFC is reused.
Reduced environmental burden	Reduced wastewater emission.
Reduced cost	PFC is reused.

Air Water is promoting activities related to intellectual property in conjunction with our research and development strategies

Semiconductor Film Thickness Measurement System

Medical Allied Experiment

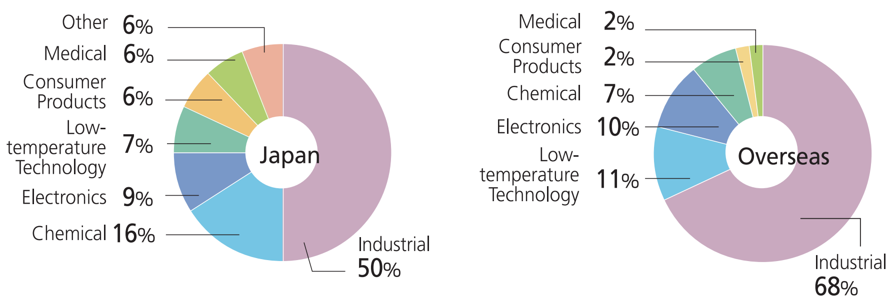
Air Water's Diverse Intellectual Properties

Air Water is aggressively working to patent the results of research and development activities. Through the strategic acquisition of patents, we are constructing a solid body of patents, and are conducting activities related to intellectual properties that support the creation of new business and increase the profitability of existing business. When applying for a patent, we thoroughly evaluate the patentability and business potential of each invention, based on prior-art searches, and submit applications only for inventions that have met our internal company standards. For patents that have already been granted, we conduct annual reviews covering such aspects as the status of the application of these patents to business activities, as we work to effectively and efficiently manage our patents as an integral part of our research and business strategies.

With these patent management policies as a foundation, we have acquired a total of 324 patents in Japan and approximately 374 patents overseas as of fiscal 2007. Looking at the patents we hold by category, both in Japan and abroad, we see that more than half of our patents are related to the industrial gas field, as shown in Fig. 1. The primary products protected by the patents held by Air Water cover an extremely broad and diverse range, as shown in Table 1.

Ratio of Patents Held, by Category (Fiscal 2007)

Fig. 1



Number of Patents Held, by Region

	2003	2004	2005	2006	2007
Domestic	329	312	344	329	324
Overseas	399	405	394	391	374

Constructing a System for Intellectual Property That Supports Air Water as a "Technology-Driven Company"

Based on the revisions to Article 35 (Inventions by Corporate Researchers) of the Patent Laws, Air Water has made major reforms to its internal regulations related to inventions by corporate researchers, and has been operating under these new regulations since April 1, 2007. These new regulations serve to ensure the right of the inventor to receive suitable compensation, and clarify the standards for calculating actual amounts of compensation for inventions that have contributed to corporate profit. As such, the regulations provide an incentive to stimulate the inventive creativity of the inventors, which in turn promotes the creation of exceptional inventions that contribute to corporate profits.

For the patents held by Air Water, we are also working to introduce a patent group management system (patent portfolio management) for managing patents by technology or product, in which patents are categorized by an original internal company classification system. This group management system is being used in addition to our conventional method of managing patents individually. Through these efforts, we are able to clearly ascertain the position of Air Water patents within research and development fields, to establish strategic patent application policies, and to acquire an efficient and effective body of patents.

The patent utilization policies of Air Water emphasize the securing of a marketing edge for business and products through the company's, or Group companies', utilization of its patents. However, for patents in fields other than our core technologies, and for patents judged as being beneficial to our business strategies, we are also working to promote utilization through licensing.

Furthermore, in order to increase the awareness of researchers with respect to intellectual properties and to strengthen knowledge about intellectual property, Air Water is introducing training programs ranked according to participants' knowledge levels as we work to strengthen our intellectual property training and education.

These mid-term intellectual property strategy measures are being established and implemented with the goal of contributing to the Air Water mid-term business plan, leading to the construction of an intellectual-property system which supports Air Water as a company that establishes technologies.

CMP Slurry Delivery System

Scanning Electron Microscope

Atmospheric Pressure Plasma Process

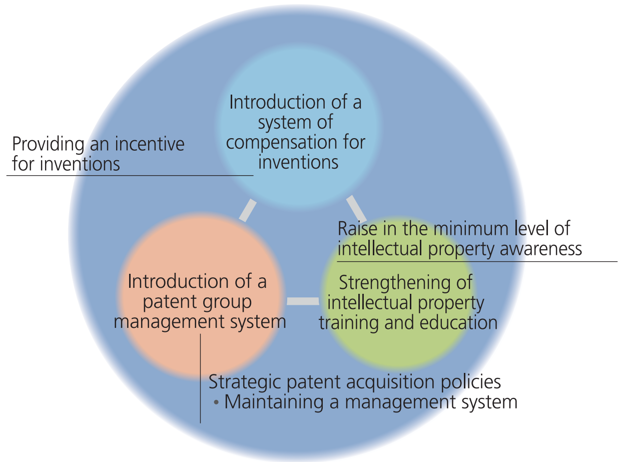
Table 1

Primary Products Covered by Our Patent Group	
Industrial (Gas)	• Air separation systems • Gas nitriding process • Welding, termal cutting
Chemical	• Information and electronics materials (phenolic resins and epoxy resins) • Functional materials (thermal expandable graphite) • Pharmaceutical intermediates
Electronics	• Vacuum chemical expitaxy for silicon equipment
Medical	• Artificial air systems for medical use • Sterilization equipment • Hyperbasic oxygen chambers • Shower equipment
Consumer Products	• Accommodation • Process of manufacturing of collagen
Low-temperature Technology	• Tank trucks • Pulse tube refrigerators • Cold evaporators

Constructing of a System for Intellectual Properties That Supports Air Water as a Technology-driven Company

Fig. 2

Making a foundation for continuing to create superior intellectual properties



Analysis of Operating Results and Financial Conditions

1) Business Overview

Net sales increased by ¥21,575 million from the previous fiscal year to ¥426,226 million, primarily due to brisk gas sales by the Industrial Business Group to major users such as manufacturers of steel, LCD displays, semiconductors, silicon wafers, and glass; strong sales of basic chemicals, including crude benzene, in the Chemical Business Group thanks to the tightening of supply/demand condition and the improvement of market conditions; and an increase in the number of newly consolidated companies.

Operating income totaled ¥25,578 million, an increase of ¥2,481 million from the previous fiscal year, primarily due to increased net sales as well as higher prices and reductions in operating costs in each business.

Ordinary income rose by ¥2,251 million from the previous fiscal year to ¥27,710 million, primarily due to increases in operating income and dividends income.

Extraordinary income totaled ¥231 million, a decrease of ¥2,523 million from the previous fiscal year, primarily due to decreases in gains on the sale of investment securities and gains on the sale of investment in partnerships.

Extraordinary losses decreased by ¥2,440 million from the previous fiscal year to ¥2,644 million primarily due to decreases in business losses at subsidiaries and affiliates and losses on the impairment of fixed assets.

As a result, income before taxes and other adjustments, which is obtained by adding extraordinary income to or deducting extraordinary losses from ordinary income, stood at ¥25,297 million, while net income, obtained by subtracting tax expenses and minority interests from income before income taxes and minority interests, totaled ¥14,503 million, an increase of ¥2,625 million from the previous fiscal year. Net income per share rose from ¥72.59 to ¥79.29, return on equity (ROE) increased from 11.9% to 12.2%, and return on assets (ROA) increased from 8.0% to 8.1%.

2) Financial Condition

Assets

Current assets totaled ¥147,672 million, an increase of ¥3,887 million from the end of the previous fiscal year. The increase was primarily attributable to increases in notes receivable, accounts receivable, and inventories resulting from an increase in the number of newly consolidated subsidiaries.

Fixed assets totaled ¥205,726 million, an increase of ¥20,283 million from the previous fiscal year. The increase was primarily attributable to an increase in property, plant and equipment due to a rise in capital investment related to the industrial business and an increase in the number of newly consolidated subsidiaries, despite a significant decrease in investment securities resulting from a decline in the valuation of the company's stock holdings.

As a result of the increases in current assets and fixed assets, total assets increased by ¥24,170 million from the previous fiscal year to ¥353,399 million.

Liabilities

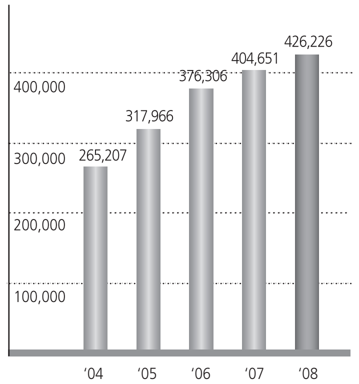
Despite early conversion of zero coupon convertible bonds due in 2009, total liabilities increased by ¥4,423 million from the previous fiscal year to ¥215,407 million due to increased interest-bearing liabilities resulting from increases in capital investment and in the number of newly consolidated subsidiaries.

Net Assets

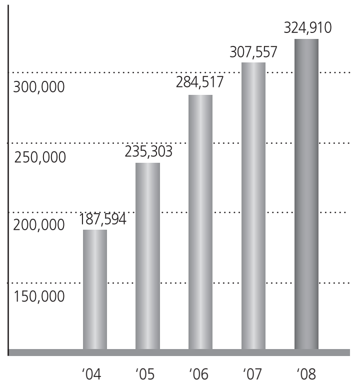
Net assets increased by ¥19,747 million from the previous fiscal year to ¥137,992 million. The increase was primarily attributable to an increase in capital and capital surplus resulting from the conversion of convertible bonds to shares and increased net income.

Net assets per share increased to ¥689.41 from ¥641.95 for the previous fiscal year, and the equity ratio rose from 33.2% to 36.1%.

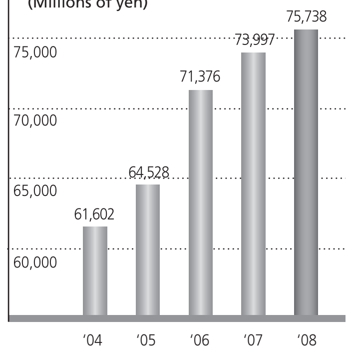
Net sales (Millions of yen)



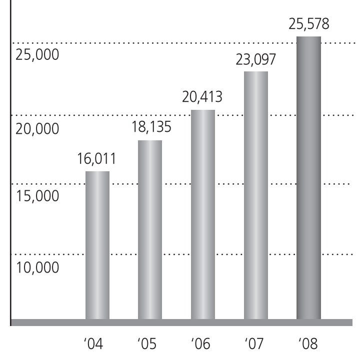
Cost of sales (Millions of yen)



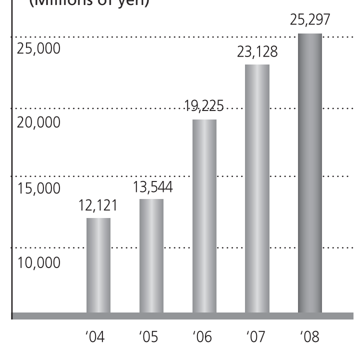
Selling, general and administrative expenses (Millions of yen)



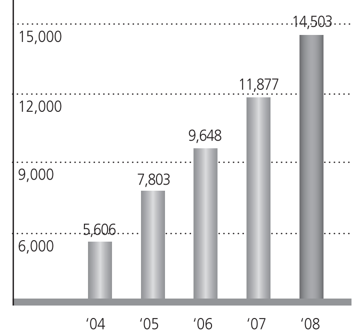
Operating income (Millions of yen)



Income before income taxes and minority interests (Millions of yen)



Net income (Millions of yen)



3) Cash Flows

Net cash flow from operating activities decreased by ¥8,984 million from the previous fiscal year to ¥21,664 million, primarily due to increased taxes and other payments and a rise in operating funds, although income before income taxes and other adjustments increased.

Cash flow from investing activities increased by ¥18,820 million from the previous fiscal year primarily due to increased expenditures for capital investment related to industrial gases and for the acquisition of property, plant and equipment attendant on the construction of the Research and Development Institute, as well as an increases in expenditures for the acquisition of investment securities, resulting in a net negative cash flow of ¥36,033 million.

As a result, free cash flow decreased by ¥27,804 million, resulting in a net negative cash flow of ¥14,369 million.

Cash flow from financing activities rose by ¥19,415 million from the previous fiscal year to ¥9,800 million, primarily due to the borrowing of investment funds.

The result was that the balance of cash and cash equivalents at the end of the fiscal year was ¥12,524 million, a decrease of ¥4,321 million from the previous fiscal year.

4) 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; and have a material influence on the 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, 2008.

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 industries. Consequently, industrial gas sales can be affected by demand in these industries, which are supported primarily by the rapid growth in East Asia.

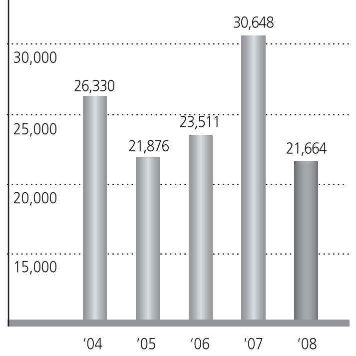
If electricity expenses rise as a result of higher crude oil prices and other factors, the production expenses for the oxygen, nitrogen and other industrial gases produced and sold by the AWI Group will increase. If the increased expenses cannot be passed on to the customer, profits from the sale of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

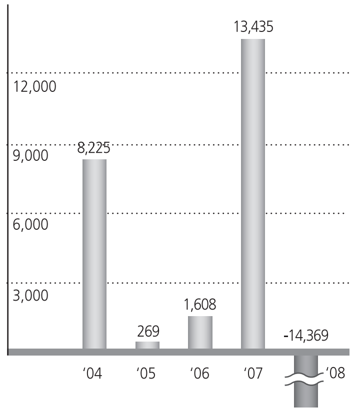
Rising Fuel Expenses

If the prices of kerosene and other fuels increase as a result of higher crude oil prices and other factors, transport 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.

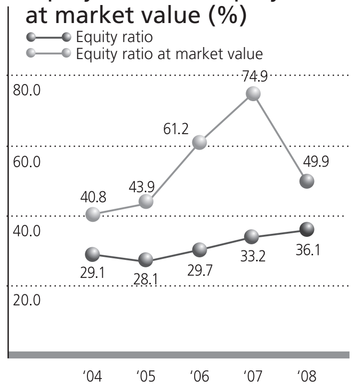
Cash flows from operating activities (Millions of yen)



Free cash flows (Millions of yen)



Equity ratio and equity ratio at market value (%)



Equity ratio : Shareholders equity/total assets
Equity ratio at market value : Market capitalization/total assets

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.

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, ham, and delicatessen items in compliance with the Food Sanitation Law, the JAS (Japan Agricultural Standards) Law (labeling standards), and other relevant laws and regulations, so the Group's operating results and financial condition could be affected in the event of a quality issue or other problem resulting in a loss of consumer trust.

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.

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 that competition.

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.

Natural Disasters

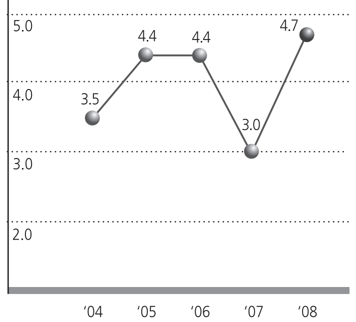
In the event that a natural disaster such as an earthquake causes serious damage to the AWI Group's production facilities and results in a significant loss of production capacity or a delay in production operations, the Group's operating results and financial condition could be affected.

The AWI Group also faces various other potential risks; the risks discussed here do not represent all potential risks.

1. All indicators are calculated using consolidated 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.

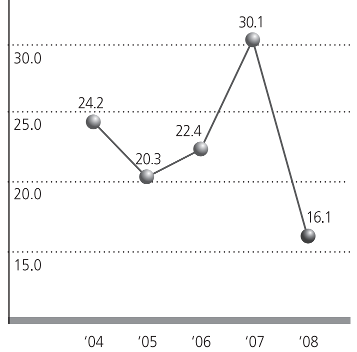
Debt repayment period

Interest bearing loans/operating cash flow



Interest coverage ratio

Operating cash flow/interest payments



Consolidated Balance Sheets

AIR WATER INC. As of March 31, 2008 and 2007

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
ASSETS			
Current assets:			
Cash on hand and in banks (Note 3)	**¥12,554**	¥16,792	**$125,277**
Marketable securities (Note 5)	**364**	412	**3,632**
Notes and accounts receivable - trade	**91,695**	89,355	**915,028**
Inventories (Note 4)	**29,473**	23,637	**294,112**
Short-term loans receivable	**4,328**	4,754	**43,189**
Deferred tax assets (Note 9)	**2,929**	2,831	**29,229**
Other current assets	**7,607**	7,298	**75,911**
Allowance for doubtful accounts	**(1,278)**	(1,295)	**(12,753)**
Total current assets	**147,672**	143,784	**1,473,625**
Property, plant and equipment (Note 7):			
Land (Note 6)	**42,030**	36,479	**419,419**
Buildings and structures	**79,090**	68,099	**789,243**
Machinery and equipment	**139,336**	97,430	**1,390,440**
Construction in progress	**7,188**	7,163	**71,729**
Other	**54,596**	51,546	**544,816**
	322,240	260,717	**3,215,647**
Less accumulated depreciation	**180,788**	141,143	**1,804,091**
Total property, plant and equipment	**141,452**	119,574	**1,411,556**
Investments and other assets:			
Investment securities (Note 5)	**36,335**	41,086	**362,589**
Investment in partnerships	**1,277**	1,301	**12,743**
Deferred tax assets (Note 9)	**2,544**	2,498	**25,387**
Goodwill	**13,215**	12,142	**131,873**
Other assets (Note 7)	**11,644**	9,997	**116,196**
Allowance for doubtful accounts	**(740)**	(1,154)	**(7,385)**
Total investments and other assets	**64,275**	65,870	**641,403**
Total assets	**¥353,399**	¥329,228	**$3,526,584**

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

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Trade	**¥66,002**	¥69,241	**$658,637**
Construction	**3,706**	3,867	**36,982**
Short-term borrowings, including current portion of long-term debt (Note 7)	**54,469**	37,207	**543,549**
Accrued expenses	**12,757**	11,536	**127,303**
Income taxes payable (Note 9)	**5,786**	5,971	**57,739**
Directors' and statutory auditors' bonuses	**208**	205	**2,076**
Other current liabilities	**5,133**	4,704	**51,221**
Total current liabilities	**148,061**	132,731	**1,477,507**
Long-term liabilities:			
Long-term debt due after one year (Note 7)	**47,147**	55,561	**470,482**
Deferred tax liabilities (Note 9)	**7,390**	10,548	**73,745**
Deferred tax liabilities related to revalued land (Note 6)	**1,316**	998	**13,132**
Employees' severance and pension benefits (Note 19)	**7,483**	7,154	**74,673**
Directors' and statutory auditors' retirement benefits	**595**	2,690	**5,938**
Other long-term liabilities	**3,415**	1,302	**34,079**
Total long-term liabilities	**67,346**	78,253	**672,049**
Contingent liabilities (Note 12)			
Total liabilities	**215,407**	210,984	**2,149,556**
NET ASSETS (NOTE10)			
Owners' equity:			
Common stock			
Authorized - 480,000,000 shares			
Issued - 185,039,839 shares in 2008	**25,514**	19,874	**254,605**
Capital surplus	**27,694**	19,631	**276,360**
Retained earnings (Note 22)	**77,808**	67,119	**776,449**
Treasury stock, at cost	**(193)**	(224)	**(1,926)**
2008 - 165,218 shares			
Valuation and translation adjustments:			
Net unrealized holding gains on securities	**5,925**	11,643	**59,126**
Deferred gains or losses on hedges	**(224)**	38	**(2,235)**
Land revaluation difference (Note 6)	**(8,937)**	(8,631)	**(89,183)**
Foreign currency translation adjustments	**(19)**	(12)	**(190)**
Total valuation and translation adjustments	**(3,255)**	3,038	**(32,482)**
Stock purchase warrants (Note 20)	**42**	-	**420**
Minority interests	**10,382**	8,806	**103,602**
Total net assets	**137,992**	118,244	**1,377,028**
Total liabilities and net assets	**¥353,399**	¥329,228	**$3,526,584**

Consolidated Statements of Income

AIR WATER INC. Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Net sales	**¥426,226**	¥404,651	**$4,253,328**
Cost of sales	**324,910**	307,557	**3,242,291**
Selling, general and administrative expenses	**75,738**	73,997	**755,793**
Operating income	**25,578**	23,097	**255,244**
Other income (expenses):			
Interest and dividend income	**632**	444	**6,307**
Interest expense	**(1,344)**	(1,018)	**(13,412)**
Equity in earnings of nonconsolidated subsidiaries and affiliates	**2,283**	2,342	**22,782**
Gain on change in equity	**32**	-	**319**
Gain on sale of property, plant and equipment	**49**	149	**489**
Gain on sale of investment securities	**63**	1,473	**629**
Gain on sale of investment in partnerships	**37**	872	**369**
Loss on sale and disposal of property, plant and equipment	**(1,049)**	(976)	**(10,468)**
Loss on impairment of fixed assets (Note 13)	**(636)**	(1,574)	**(6,347)**
Losses on sale of investments (Note 14)	**0**	(3)	**0**
Losses on devaluation of investments (Note 15)	**(537)**	(171)	**(5,359)**
Additional early retirement benefits	**(69)**	(39)	**(689)**
Loss on liquidation of affiliated company (Note 16)	**(92)**	(1,413)	**(918)**
Loss on disposal of inventories	**-**	-	**-**
Other - net	**350**	(55)	**3,494**
Income before income taxes and minority interests	**25,297**	23,128	**252,440**
Income taxes (Note 9):			
Current	**9,590**	9,192	**95,699**
Deferred	**83**	842	**828**
Income before minority interests	**15,624**	13,094	**155,913**
Minority interest	**(1,121)**	(1,217)	**(11,187)**
Net income	**¥14,503**	¥11,877	**$144,726**

	Yen		U.S. dollars (Note 1)
	2008	2007	**2008**
Per share of common stock:			
Net income - basic	**¥79.29**	¥72.59	**$0.79**
Net income - diluted	**78.63**	64.98	**0.78**
Cash dividends applicable to the year	**22.00**	20.00	**0.22**

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

Consolidated Statements of Changes in Net Asset

AIR WATER INC. Year ended March 31, 2007

Millions of yen

	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Shareholders' equity at March 31, 2006 as previously reported	**¥16,664**	**¥15,144**	**¥58,830**	**¥(322)**	**¥90,316**
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006					
Net assets at April 1, 2006	**¥16,664**	**¥15,144**	**¥58,830**	**¥(322)**	**¥90,316**
Changes in items during the period					
Exercise of stock acquisition rights	3,210	3,211			6,421
Stock swaps		1,263		344	1,607
Dividends of surplus			(3,091)		(3,091)
Bonuses to directors and statutory auditors			(150)		(150)
Land revaluation difference			(9)		(9)
Net income			11,877		11,877
Decrease in retained earnings due to newly consolidated subsidiaries			(429)		(429)
Increase resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries			91		91
Purchase of treasury stock				(273)	(273)
Disposal of treasury stock		13		27	40
Net changes in items other than owners' equity					
Total changes in items during the period	**3,210**	**4,487**	**8,289**	**98**	**16,084**
Balance as of March 31, 2007	**¥19,874**	**¥19,631**	**¥67,119**	**¥(224)**	**¥106,400**

Millions of yen

	Valuation and translation adjustments						
	Net unrealized holding gains on securities	Deferred gains on hedges	Land revaluation difference	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Shareholders' equity at March 31, 2006 as previously reported	**¥5,624**	**¥-**	**¥(4,638)**	**¥(408)**	**¥578**	**¥-**	**¥90,894**
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006						7,516	
Net assets at April 1, 2006	**¥5,624**	**¥-**	**¥(4,638)**	**¥(408)**	**¥578**	**¥7,516**	**¥98,410**
Changes in items during the period							
Exercise of stock acquisition rights							6,421
Stock swaps							1,607
Dividends of surplus							(3,091)
Bonuses to directors and statutory auditors							(150)
Land revaluation difference							(9)
Net income							11,877
Decrease in retained earnings due to newly consolidated subsidiaries							(429)
Increase resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries							91
Purchase of treasury stock							(273)
Disposal of treasury stock							40
Net changes in items other than owners' equity	6,019	38	(3,993)	396	2,460	1,290	3,750
Total changes in items during the period	**6,019**	**38**	**(3,993)**	**396**	**2,460**	**1,290**	**19,834**
Balance as of March 31, 2007	**¥11,643**	**¥38**	**¥(8,631)**	**¥(12)**	**¥3,038**	**¥8,806**	**¥118,244**

Consolidated Statements of Changes in Net Asset

AIR WATER INC. Year ended March 31, 2008

Millions of yen

	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Net assets at April 1, 2007	¥19,874	¥19,631	¥67,119	¥(224)	¥106,401
Changes in items during the period					
Exercise of stock acquisition rights	5,640	5,639			11,279
Stock swaps		2,422		227	2,649
Dividends of surplus			(3,726)		(3,726)
Land revaluation difference			(7)		(7)
Net income			14,503		14,503
Decrease in retained earnings due to newly consolidated subsidiaries			(54)		(54)
Decrease resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries			(27)		(27)
Purchase of treasury stock				(215)	(215)
Disposal of treasury stock		2		19	21
Net changes in items other than owners' equity					
Total changes in items during the period	**5,640**	**8,063**	**10,689**	**31**	**24,423**
Balance as of March 31, 2008	**¥25,514**	**¥27,694**	**¥77,808**	**¥(193)**	**¥130,824**

Thousands of U.S. dollars (Note 1)

	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Net assets at April 1, 2007	$198,324	$195,899	$669,783	$(2,235)	$1,061,781
Changes in items during the period					
Exercise of stock acquisition rights	56,281	56,272			112,553
Stock swaps		24,169		2,265	26,434
Dividends of surplus			(37,182)		(37,182)
Land revaluation difference			(70)		(70)
Net income			144,726		144,726
Decrease in retained earnings due to newly consolidated subsidiaries			(539)		(539)
Decrease resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries			(269)		(269)
Purchase of treasury stock				(2,145)	(2,145)
Disposal of treasury stock		20		189	209
Net changes in items other than owners' equity					
Total changes in items during the period	**56,281**	**80,461**	**106,666**	**309**	**243,717**
Balance as of March 31, 2008	**$254,605**	**$276,360**	**$776,449**	**$(1,926)**	**$1,305,498**

Millions of yen

	Valuation and translation adjustments							
	Net unrealized holding gains on securities	Deferred gains on hedge	Land revaluation difference	Foreign currency translation adjustment	Total valuation and translation adjustments	Stock purchase warrants	Minority interests	Total net assets
Net assets at April 1, 2007	¥11,643	¥38	¥(8,631)	¥(12)	¥3,038	¥-	¥8,806	¥118,244
Changes in items during the period								
Exercise of stock acquisition rights								11,279
Stock swaps								2,649
Dividends of surplus								(3,726)
Land revaluation difference								(7)
Net income								14,503
Decrease in retained earnings due to newly consolidated subsidiaries								(54)
Decrease resulting from merger of consolidated subsidiaries and nonconsolidated subsidiarie								(27)
Purchase of treasury stock								(215)
Disposal of treasury stock								21
Net changes in items other than owners' equity	(5,718)	(262)	(306)	(7)	(6,293)	42	1,576	(4,675)
Total changes in items during the period	**(5,718)**	**(262)**	**(306)**	**(7)**	**(6,293)**	**42**	**1,576**	**19,748**
Balance as of March 31, 2008	**¥5,925**	**¥(224)**	**¥(8,937)**	**¥(19)**	**¥(3,255)**	**¥42**	**¥10,382**	**¥137992**

Thousands of U.S. dollars (Note 1)

	Valuation and translation adjustments							
	Net unrealized holding gains on securities	Deferred gains on hedge	Land revaluation difference	Foreign currency translation adjustment	Total valuation and translation adjustments	Stock purchase warrants	Minority interests	Total net assets
Net assets at April 1, 2007	$116,186	$379	$(86,129)	$(120)	$30,316	$-	$87,875	$1,179,962
Changes in items during the period								
Exercise of stock acquisition rights								112,553
Stock swaps								26,434
Dividends of surplus								(37,182)
Land revaluation difference								(70)
Net income								144,726
Decrease in retained earnings due to newly consolidated subsidiaries								(539)
Decrease resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries								(269)
Purchase of treasury stock								(2,145)
Disposal of treasury stock								209
Net changes in items other than owners' equity	(57,060)	(2,614)	(3,054)	(70)	(62,798)	420	15,727	(46,651)
Total changes in items during the period	**(57,060)**	**(2,614)**	**(3,054)**	**(70)**	**(62,798)**	**420**	**15,727**	**197,066**
Balance as of March 31, 2008	**$59,126**	**$(2,235)**	**$(89,183)**	**$(190)**	**$(32,482)**	**$420**	**$103,602**	**$1,377,028**

Consolidated Statements of Cash Flows

AIR WATER INC. Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interest	¥25,297	¥23,128	$252,440
Depreciation	13,522	12,602	134,937
Loss on impairment of fixed assets	636	1,574	6,347
Amortization of goodwill	1,217	1,291	12,144
Increase (decrease) in allowance for doubtful accounts	(440)	970	(4,391)
Increase (decrease) in retirement benefits	21	(218)	210
Interest and dividend income	(632)	(444)	(6,307)
Interest expense	1,344	1,018	13,412
Equity in earnings of nonconsolidated subsidiaries and affiliates	(2,283)	(2,342)	(22,782)
Gain on change in equity	(32)	-	(319)
Gain on sale of property, plant and equipment	(49)	(149)	(489)
Loss on sale and disposal of property, plant and equipment	1,049	976	10,468
Gain on sale of investment securities	(63)	(1,473)	(629)
Loss on sale of investments	0	3	0
Loss on devaluation of investments	571	253	5,698
Gain on sale of capital	(37)	(872)	(369)
(Increase) decrease in notes and accounts receivable	1,601	(5,740)	15,976
(Increase) decrease in inventories	(2,388)	(810)	(23,830)
Increase (decrease) in notes and accounts payable	(5,378)	9,615	(53,667)
Directors' and statutory auditors' bonuses	-	(160)	-
Other - net	(2,671)	(1,461)	(26,655)
Subtotal	31,285	37,761	312,194
Interest and dividends received	1,570	868	15,668
Interest paid	(1,348)	(1,004)	(13,452)
Income taxes paid	(9,843)	(6,977)	(98,224)
Net cash provided by operating activities	¥21,664	¥30,648	$216,186
Cash flows from investing activities:			
Acquisitions of property, plant and equipment	(23,576)	(19,239)	(235,266)
Proceeds from sales of property, plant and equipment	2,538	2,384	25,327
Acquisitions of intangible assets	(1,790)	(2,026)	(17,862)
Purchase of investment securities	(6,671)	(3,049)	(66,570)
Proceeds from sales of investment securities	101	2,705	1,008
Acquisitions of consolidated subsidiaries, net of cash acquired (Note 3)	(5,312)	-	(53,009)
Proceeds from consolidated subsidiaries, net of cash acquired (Note 3)	-	1,198	-
Proceeds from sale of capital	-	896	-
Disbursement of loans receivable	(1,751)	(392)	(17,473)
Collection of loans receivable	412	168	4,111
Other - net	16	142	159
Net cash used in investing activities	¥(36,033)	¥(17,213)	$(359,575)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	10,498	(5,071)	104,760
Proceeds from long-term debt	19,396	20,279	193,554
Repayments of long-term debt	(15,406)	(21,557)	(153,737)
Proceeds from issuance of bonds	-	200	-
Repayments of bonds	(607)	(399)	(6,057)
Purchase of treasury stock	(216)	(273)	(2,155)
Proceeds from sales of treasury stock	46	40	459
Proceeds from expenses of minority interests	-	441	-
Cash dividends paid	(3,726)	(3,091)	(37,182)
Cash dividends paid to minority interests	(184)	(184)	(1,837)
Net cash provided by (used in) financing activities	¥9,801	¥(9,615)	$97,805
Effect of exchange rate changes on cash and cash equivalent	(5)	0	(50)
Net increase (decrease) in cash and cash equivalents	(4,573)	3,820	(45,634)
Cash and cash equivalents at beginning of year	16,846	12,876	168,107
Net increase in cash and cash equivalents by merger	14	10	140
Increase in cash and cash equivalents due to newly consolidated subsidiaries	237	140	2,365
Cash and cash equivalents at end of year (Note 3)	¥12,524	¥16,846	$124,978

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, 2008 and 2007

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of AIR WATER inc. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

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, 2008, which was ¥100.21 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 equity in undistributed earnings and losses from the date of acquisition.

The number of consolidated subsidiaries was 68 for the year ended March 31, 2008 (63 for the year ended March 31, 2007) and the number of companies accounted for using the equity method was 7 for the year ended March 31, 2008 (6 for the year ended March 31, 2007).

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 is charged/credited to 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 2006>

(Accounting Standard for Directors' Bonuses)

Effective from the consolidated accounting period ended March 31, 2007, the Company and its domestic subsidiaries have adopted the "Corporate Accounting Standard No. 4 regarding directors' bonuses," issued on November 29, 2005. As a result, in the year ended March 31, 2007, operating income, income before income taxes and extraordinary items, and income before income taxes and minority interests were ¥205 million ($ 1,736 thousand) less than they would have been without the adoption.

(Accounting Standard for Business Combinations)

"Accounting Standards for Business Combinations" ("Opinion Concerning Establishment of Accounting Standards for Business Combinations," issued by the Business Accounting Deliberation Council on October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 27, 2005) were applicable from the fiscal year beginning on April 1, 2006. Effective April 1, 2006, the Company applied the new accounting standards.

<Fiscal year 2007>

(Depreciation for Fixed Assets)

The depreciation method used of certain categories of property, plant and equipment has been changed from the declining balance method to the straight line method during the fiscal year.

The method of depreciation for fixed assets, "Property, plant and equipment," acquired after April 1, 2007 has been changed to the method of depreciation based on the revised Corporation Tax Law of Japan in fiscal 2007.

The use of the declining balance method for the depreciation of tangible fixed assets was reviewed in the tax reforms in 2007. As a result, tangible fixed assets used at gas distribution plants could be depreciated in a manner more accurately reflecting profit and loss.

As a result, in the year ended March 31, 2008, operating income was ¥647 million ($6,456 thousand) more, and ordinary income and income before income taxes each ¥715 million ($7,135 thousand) more than they have been with the previous method.

The effect on segment information is described in Note 11.

(Accounting Standard for Reserve for Directors and Statutory Auditors' Retirement Benefits)

"Treatment for Auditing of Reserve under Special Taxation Measures Law, Reserve under Special Laws and Reserve for Retirement Benefits to Directors and Statutory Auditors" (JICPA Audit and Assurance Practice Committee Report No. 42) was applicable from the fiscal year beginning on April 1, 2007. In accordance with this accounting change, certain consolidated subsidiaries provide for the liability for directors' and statutory auditors' retirement benefits based on their regulations decided internally in the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet date.

As a result, in the year ended March 31, 2008, operating income and ordinary income were each ¥23 million ($230 thousand) less, and income before income taxes ¥104 million ($1,038 thousand) less than they would have been without the change.

The effect on segment information is described in Note 11.

(3) Securities

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

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

Available-for-sale securities with available fair market values held by the consolidated subsidiaries are stated at year-end fair market price.

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 should be 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 average cost.

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

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.

(6) Property, plant and equipment

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

In accordance with revisions to the Corporation Tax Law, the Companies depreciate the difference between the reminder value and an amount equivalent to 5% of the acquisition cost of an asset acquired on or before April 1, 2007 using the straight line method over a period of 5 years from the year after the year in which this difference reaches 5% of the acquisition cost through depreciation under the pre-revisions Corporation Tax Law.

As a result, in the year ended March 31, 2008, operating income was ¥661 million ($6,596 thousand) less, and ordinary income and income before income taxes were each ¥671 million ($6,696 thousand) less than they would have been without the revisions.

The effect on segment information is described in Note 11.

(7) Amortization of goodwill

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

(8) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for 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.

(9) Directors' and statutory auditors' bonuses

The provision for directors' and statutory auditors' bonuses are 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.

(10) Retirement benefits

(a) Employees

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

(b) Directors and statutory auditors

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

The Company abolished the policy of paying for retirement benefits (including the present value of estimated amounts to be paid as pension benefits) for directors and statutory auditors and decided the payment of retirement benefits for termination pursuant to resolutions made at the director's meeting held on March 29, 2007.

The amount of pension benefits is presented in "Other long-term liabilities."

(11) Research and development expenses

Research and development expenses, which were ¥2,983 million ($29,767 thousand) and ¥2,755 million for the years ended March 31, 2008 and 2007, respectively, are charged to income when paid and are included in general and administrative expenses.

(12) Finance leases

Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases under Japanese GAAP.

(13) Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates 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 cash dividends declared as applicable to 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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash on hand and in banks in the consolidated balance sheets	**¥12,554**	¥16,792	**$125,277**
Time deposits with maturities exceeding 3 months	**(394)**	(357)	**(3,932)**
Free financial funds	**364**	411	**3,633**
Cash and cash equivalents on the consolidated statements of cash flows	**¥12,524**	¥16,846	**$124,978**

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current assets	**¥8,691**	¥ –	**$86,728**
Noncurrent assets	**11,838**	–	**118,132**
Current liabilities	**(6,847)**	–	**(68,327)**
Long-term liabilities	**(3,326)**	–	**(33,190)**
Cost in excess of net assets of subsidiaries	**217**	–	**2,165**
Minority interests	**(4,275)**	–	**(42,660)**
Acquisition cost	**6,298**	–	**62,848**
Purchase amount of stocks	**5,794**	–	**57,819**
Cash and cash equivalents of acquired companies	**(482)**	–	**(4,810)**
Net expenditure	**¥5,312**	¥ –	**$53,009**

The assets and liabilities of excluded subsidiaries were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current assets	**¥–**	¥9,105	**$–**
Noncurrent assets	**–**	1,369	**–**
Total assets	**–**	10,474	**–**
Current liabilities	**–**	8,425	**–**
Long-term liabilities	**–**	422	**–**
Total liabilities	**¥–**	¥8,847	**$–**

Significant noncash transactions for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Issuance of new stock by execution of stock acquisition rights:			
Credited to common stock	**¥5,640**	¥3,210	**$56,281**
Credited to capital surplus	**5,639**	3,211	**56,272**
Deacrease of zero coupon convertible bonds due 2009	**¥11,279**	¥6,421	**$112,553**

4. Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished goods and merchandise	**¥17,691**	¥13,093	**$176,539**
Raw materials	**3,092**	2,449	**30,855**
Work–in-process	**4,258**	4,272	**42,491**
Contract work in progress	**1,386**	1,687	**13,831**
Supplies	**3,046**	2,136	**30,396**
	¥29,473	¥23,637	**$294,112**

5. Securities

(1) Available-for-sale securities with available fair market values at March 31, 2008 and 2007 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference gain (loss)	Acquisition cost	Book value	Difference gain (loss)	Acquisition cost	Book value	Difference gain (loss)
		2008			2007				**2008**
Securities with book values exceeding acquisition costs:									
Stocks	**¥7,897**	**¥19,428**	**¥11,531**	¥8,901	¥29,245	¥20,344	**$78,805**	**$193,873**	**$115,068**
Securities with book values not exceeding acquisition costs:									
Stocks	**4,126**	**3,315**	**(811)**	152	132	(20)	**41,173**	**33,080**	**(8,093)**
	¥12,023	**¥22,743**	**¥10,720**	¥9,053	¥29,377	¥20,324	**$119,978**	**$226,953**	**$106,975**

(2) The following table summarizes book values of securities with no available fair values as of March 31, 2008 and 2007:

(a) Shares of subsidiaries and affiliates:

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Non-listed share	**¥12,218**	¥9,669	**$121,924**

(b) Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Non-listed shares	**¥1,374**	¥2,029	**$13,711**
Other	**364**	423	**3,633**
	¥1,738	¥2,452	**$17,344**

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 following table summarizes the book value and fair value of the revalued land as of March 31, 2008.

	Millions of yen			Thousands of U.S. dollars
	Book value after revaluation	Fair value	Difference	Difference
Revalued land	¥15,393	¥12,385	¥(3,008)	$(30,017)

7. Short-term borrowings and long-term debt

The weighted average interest rate of short-term borrowings as of March 31, 2008 and 2007, was 1.24% and 1.20%, respectively.

Long-term debt as of March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans from banks and insurance companies with interest rates ranging from 0.43% to 5.61% maturing through 2023	**¥64,084**	¥57,158	**$639,497**
Zero coupon convertible bonds due 2009	**-**	11,279	**-**
0.42% unsecured bonds due 2008	**-**	280	**-**
0.78% unsecured bonds due 2007	**-**	100	**-**
1.36% unsecured bonds due 2010	**100**	100	**998**
1.27% unsecured bonds due 2010	**100**	100	**998**
0.20% unsecured bonds due 2008	**100**	100	**998**
0.82% unsecured bonds due 2009	**60**	100	**598**
1.24% unsecured bonds due 2011	**53**	67	**529**
0.51% unsecured bonds due 2008	**-**	72	**-**
0.62% unsecured bonds due 2008	**-**	100	**-**
0.97% unsecured bonds due 2010	**100**	100	**998**
	64,597	69,556	**644,616**
Less amount due within one year	**17,450**	13,995	**174,134**
	¥47,147	¥55,561	**$470,482**

The aggregate annual maturities of long-term debt as of March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
2009	¥17,450	$174,134
2010	8,865	88,464
2011	12,771	127,442
2012	5,816	58,038
2013	2,368	23,631
2014 and thereafter	17,327	172,907

As of March 31, 2008, the following assets were pledged as collateral for short-term bank loans of ¥3,860 million (US$38,519 thousand) and long-term debt of ¥7,888 million (US$78,715 thousand):

	Millions of yen	Thousands of U.S. dollars
Land	10,120	100,988
Buildings and structures	4,270	42,611
Machinery and equipment	1,579	15,757
Other (property, plant and equipment)	42	419
Other assets	44	439
	¥16,055	$160,214

8. Derivative financial instruments and hedging transactions

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Items hedged:
Forward foreign exchange contracts	Import transactions
Interest rate swap contracts	Interest on long-term debt
Interest rate option	Interest on long-term debt

9. Income taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2008 and 2007.

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, 2008 and 2007:

	2008	2007
Statutory tax rate	**40.6%**	40.6%
Non-deductible expenses	**1.5**	1.9
Equity in earnings of non-consolidated subsidiaries and affiliates	**(3.7)**	(4.1)
Per capita inhabitants taxes	**0.7**	0.8
Other	**(0.9)**	4.2
Effective tax rate	**38.2%**	43.4%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Retirement benefits	**¥3,379**	¥3,241	**$33,719**
Excess bonuses accrued	**1,723**	1,613	**17,194**
Devaluation of investment securities	**1,408**	1,095	**14,050**
Goodwill impairment	**777**	661	**7,754**
Allowance for doubtful accounts	**644**	786	**6,427**
Accrued enterprise taxes	**527**	507	**5,259**
Net operating losses carried forward for tax purposes	**411**	491	**4,101**
Other	**2,103**	1,770	**20,986**
Total deferred tax assets	**10,972**	10,164	**109,490**
Valuation allowance	**(1,036)**	(880)	**(10,338)**
Net deferred tax assets	**9,936**	9,284	**99,152**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(4,370)**	(8,248)	**(43,608)**
Retained earnings appropriated for tax allowable reserves	**(4,330)**	(4,356)	**(43,209)**
Variance of the estimate with capital consolidation	**(1,496)**	(522)	**(14,929)**
Other	**(1,657)**	(1,377)	**(16,535)**
Total deferred tax liabilities	**(11,853)**	(14,503)	**(118,281)**
Net deferred tax assets (net deferred tax liabilities)	**¥(1,917)**	¥(5,219)	**$(19,129)**

Besides the above-mentioned, deferred tax assets and liabilities for land revaluation difference as of March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets	¥4,436	$44,267
Valuation allowance	(4,314)	(43,049)
Net deferred tax assets	¥122	$1,218
Deferred tax liabilities	¥ (1,438)	$ (14,350)

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.

And, 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 non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

11. Segment information

For the year ended March 31, 2007, the Companies were engaged in the manufacture and sale of products in 6 categories: Industrial business; Medical business; Chemical business; Energy business; Consumer products; and Other business. Effective April 1, 2007, the Companies were engaged in the manufacture and sale of products in 5 categories: Industrial business; Medical business; Chemical business; Energy business; and Other business. The consumer products category was immaterial.

Information by industry segment for the years ended March 31, 2008 and 2007 is summarized as follows:

Millions of yen

For 2008	Industrial business	Medical business	Chemical business	Energy business	Other business	Elimination and corporate	Consoli-dated
Net sales:							
Customers	**¥194,571**	**¥51,800**	**¥91,329**	**¥51,094**	**¥37,432**	**¥-**	**¥426,226**
Inter-segment	**6,137**	**51**	**925**	**838**	**16,327**	**(24,278)**	**-**
Total	**200,708**	**51,851**	**92,254**	**51,932**	**53,759**	**(24,278)**	**426,226**
Costs and expenses	**182,971**	**50,542**	**89,081**	**50,238**	**52,094**	**(24,278)**	**400,648**
Operating income	**¥17,737**	**¥1,309**	**¥3,173**	**¥1,694**	**¥1,665**	**¥-**	**¥25,578**
Assets	**¥162,107**	**¥33,873**	**¥68,061**	**¥30,835**	**¥38,271**	**¥20,252**	**¥353,399**
Depreciation	**¥7,272**	**¥857**	**¥1,445**	**¥2,226**	**¥1,722**	**¥-**	**¥13,522**
Loss on impairment of fixed assets	**¥-**	**¥-**	**¥-**	**¥-**	**¥628**	**¥8**	**¥636**
Capital expenditures	**¥17,057**	**¥737**	**¥3,224**	**¥3,925**	**¥1,818**	**¥-**	**¥26,761**

Millions of yen

For 2007	Industrial business	Medical business	Chemical business	Energy business	Consumer products	Other business	Elimination and corporate	Consoli-dated
Net sales:								
Customers	¥185,083	¥49,445	¥78,676	¥46,991	¥21,378	¥23,078	¥-	¥404,651
Inter-segment	5,785	57	178	622	586	13,788	(21,016)	-
Total	190,868	49,502	78,854	47,613	21,964	36,866	(21,016)	404,651
Costs and expenses	174,947	47,979	76,610	46,112	21,773	35,149	(21,016)	381,554
Operating income	¥15,921	¥1,523	¥2,244	¥1,501	¥191	¥1,717	¥-	¥23,097
Assets	¥143,987	¥39,212	¥43,389	¥29,701	¥6,153	¥24,199	¥42,587	¥329,228
Depreciation	¥6,425	¥1,182	¥1,053	¥2,133	¥358	¥1,451	¥-	¥12,602
Loss on impairment of fixed assets	¥1,053	¥-	¥-	¥418	¥103	¥-	¥-	¥1,574
Capital expenditure	¥12,723	¥904	¥1,649	¥3,820	¥239	¥1,132	¥-	¥20,467

Thousands of U.S. dollars

For 2008	Industrial business	Medical business	Chemical business	Energy business	Other business	Elimination and corporate	Consoli-dated
Net sales:							
Customers	**$1,941,633**	**$516,914**	**$911,376**	**$509,869**	**$373,536**	**$-**	**$4,253,328**
Inter-segment	**61,241**	**509**	**9,231**	**8,363**	**162,927**	**(242,271)**	**-**
Total	**2,002,874**	**517,423**	**920,607**	**518,232**	**536,463**	**(242,271)**	**4,253,328**
Costs and expenses	**1,825,876**	**504,360**	**888,943**	**501,327**	**519,849**	**(242,271)**	**3,998,084**
Operating income	**$176,998**	**$13,063**	**$31,664**	**$16,905**	**$16,614**	**$-**	**$255,244**
Assets	**$1,617,673**	**$338,020**	**$679,184**	**$307,704**	**$381,907**	**$202,096**	**$3,526,584**
Depreciation	**$72,568**	**$8,552**	**$14,420**	**$22,213**	**$17,184**	**$-**	**$134,937**
Loss on impairment of fixed assets	**$-**	**$-**	**$-**	**$-**	**$6,267**	**$80**	**$6,347**
Capital expenditure	**$170,213**	**$7,355**	**$32,172**	**$39,168**	**$18,141**	**$-**	**$267,049**

Corporate assets are mainly comprised of cash and time deposits, marketable securities, investment securities and assets of administrative departments. Corporate assets as of March 31, 2008 and 2007 were ¥41,190 million ($411,037 thousand) and ¥55,600 million, respectively.

(Method of depreciation for fixed assets)

As shown in Accounting change, the Company and its domestic subsidiaries changed the depreciation method for fixed assets.

As a result, operating expenses were ¥140 million ($ 1,397 thousand) less in the industrial business segment, ¥17 million ($170 thousand) less in the medical business segment, ¥279 million ($2,784 thousand) less in the chemical business segment, ¥18 million ($180 thousand) less in the energy business segment, and ¥193 million ($1,926 thousand) less in the other business segment than they would have been without the change. Operating income was more by the same amounts accordingly.

(Additional information)

As shown in Note2. (6), property, plant and equipment are carried at cost. Depreciation is computed principally by the straight-line method.

In accordance with revisions to the Corporation Tax Law, the Companies depreciate the difference between the reminder value and an amount equivalent to 5% of the acquisition cost of an asset acquired on or

before April 1, 2007 using the straight line method over a period of 5 years from the year after the year in which this difference reaches 5% of the acquisition cost through depreciation under the pre-revisions Corporation Tax Law.

As a result, operating expenses were ¥376 million ($ 3,752 thousand) more in the industrial business segment, ¥25 million ($249 thousand) more in the medical business segment, ¥152 million ($1,516 thousand) more in the chemical business segment, ¥28 million ($279 thousand) more in the energy business segment, and ¥80 million ($798 thousand) more in the other business segment than they would have been without the revisions. Operating income was less by the same amounts accordingly.

(Accounting procedure of directors' and statutory auditors' retirement benefits)

As shown in Accounting change, effective April 1, 2007, some of the domestic subsidiaries have adopted the new accounting procedure for directors' and statutory auditors' retirement benefits.

As a result, operating expenses were ¥22 million ($ 220 thousand) more in the industrial business segment, ¥1 million ($10 thousand) more in the medical business segment than they would have been without the change. Operating income was less by the same amounts accordingly.

Business segment information reclassified to conform with the current business segmentation for the year ended March 31, 2007 was as follows:

Millions of yen

For 2007	Industrial business	Medical business	Chemical business	Energy business	Other business	Elimination and corporate	Consoli-dated
Net sales:							
Customers	¥185,083	¥49,445	¥78,676	¥46,991	¥44,456	¥-	¥404,651
Inter-segment	¥5,785	¥57	¥178	¥622	¥13,458	(20,100)	-
Total	¥190,868	¥49,502	¥78,854	¥47,613	¥57,914	(20,100)	¥404,651
Costs and expenses	¥174,947	¥47,979	¥76,610	¥46,112	¥56,006	(20,100)	¥381,554
Operating income	¥15,921	¥1,523	¥2,244	¥1,501	¥1,908	¥-	¥23,097
Assets	¥143,987	¥39,212	¥43,389	¥29,701	¥30,352	¥42,587	¥329,228
Depreciation	¥6,425	¥1,182	¥1,053	¥2,133	¥1,809	¥-	¥12,602
Loss on impairment of fixed assets	¥1,053	¥-	¥-	¥418	¥103	¥-	¥1,574
Capital expenditures	¥12,723	¥904	¥1,649	¥3,820	¥1,371	¥-	¥20,467

Sales and assets in Japan accounted for more than 90% of consolidated net sales and net assets. Overseas sales of the Companies for the years ended March 31, 2008 and 2007 accounted for less than 10% of consolidated net sales.

12. Contingent liabilities

As of March 31, 2008, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥550 million ($5,488 thousand). As of the same date, the Companies were also contingently liable as guarantors for loans to other companies and employees in the amount of ¥1,108 million ($11,057 thousand).

13. Loss on impairment of fixed assets

At the year ended March 31, 2008, the Company reported the following losses on impairment fixed assets:

Use	Type of assets	Place	Millions of yen	Thousands of U.S. dollars
Assets concerning ECOROCA	Leased asset	Mito-city, Ibaraki Prefecture	¥628	$6,267
Idle assets	Land	Namegata-city, Ibaraki Prefecture	¥8	$80

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

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

14. Losses on sale of investments

Loss on the sale of investments for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loss on sale of investment securities	**¥0**	¥0	**$0**
Loss on sale of golf membership rights	**-**	3	**-**
	¥0	¥3	**$0**

15. Loss on devaluation of investments

Loss on the devaluation of investments for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loss on devaluation of investment securities	**¥513**	¥70	**$5,119**
Loss on devaluation of golf membership rights	**24**	101	**240**
	¥537	¥171	**$5,359**

16. Loss on liquidation of affiliated company

Loss on the liquidation of an affiliated company for the year ended March 31, 2008 is shown below:

	Millions of yen	Thousands of U.S. dollars
Losses on devaluation of stocks of affiliated company	¥34	$339
Provision of allowance for doubtful accounts	58	579
	¥92	$918

17. Finance leases

Information relating to non-capitalized finance leases of the Companies, as lessee, as of and for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
(1) Future minimum lease payments, including financing charges:			
Due within one year	**¥6,956**	¥6,188	**$69,414**
Due after one year	**34,783**	30,189	**347,101**
	¥41,739	¥36,377	**$416,515**

Allowance for impairment loss on leased property of ¥321 million($3,203 thousand) as of March 31, 2008 was not included in obligations under finance leases.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
(2) Original lease obligation, payments made, accumulated impairment loss and remaining balance:			
Original lease obligation	**¥57,663**	¥50,658	**$575,422**
Payments made	**20,963**	17,299	**209,191**
Accumulated impairment loss	**341**	111	**3,403**
Remaining balance	**¥36,359**	¥33,248	**$362,828**
(3) Lease payments for the period	**¥6,863**	¥6,075	**$68,486**

If the above finance leases had been capitalized, depreciation of ¥5,910 million ($58,976 thousand), reversal of allowance for impairment loss on leased property of ¥10 million ($100 thousand), and interest of ¥1,246 million ($12,434 thousand) would have been recorded for the year ended March 31, 2008.

Information relating to finance leases of the Companies, as lessor, as of and for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
(1) Future minimum lease receipts, including financing charges:			
Due within one year	**¥951**	¥625	**$9,490**
Due after one year	**5,748**	1,599	**57,360**
	¥6,699	¥2,224	**$66,850**
(2) Acquisition cost, accumulated depreciation and book value of leased properties:			
Acquisition cost	**¥2,993**	¥2,952	**$29,867**
Accumulated depreciation	**1,515**	1,601	**15,118**
Book value	**¥1,478**	¥1,351	**$14,749**
(3) Lease receipts	**¥592**	¥624	**$5,908**
(4) Depreciation	**¥394**	¥409	**$3,932**

18. Operating leases

Obligations under non-cancelable operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥287**	¥289	**$2,864**
Due after one year	**1,919**	2,095	**19,150**
	¥2,206	¥2,384	**$22,014**

19. Employees' severance and pension benefits

The liabilities for employees' severance and pension benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥29,101**	¥27,887	**$290,400**
Prepaid pension costs	**3,172**	2,437	**31,654**
Unrecognized prior service costs	**2,387**	2,673	**23,820**
Unrecognized actuarial differences	**(8,517)**	(7,183)	**(84,992)**
Less fair value of pension assets	**(18,660)**	(18,660)	**(186,209)**
Liability for severance and pension benefits	**¥7,483**	¥7,154	**$74,673**

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 were severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service costs - benefits earned during the year	**¥1,527**	¥1,339	**$15,238**
Interest costs on projected benefit obligation	**610**	508	**6,087**
Expected return on plan assets	**(492)**	(328)	**(4,909)**
Amortization of actuarial differences	**994**	954	**9,919**
Amortization of prior service costs	**(303)**	(303)	**(3,024)**
Severance and retirement benefit expenses	**¥2,336**	¥2,170	**$23,311**

Additional early retirement benefits were not included above.

The discount rate and the rate of expected return on plan assets used by the Companies were approximately 2.5% (2.5% in 2007) and mainly 2.5% (2.5% in 2007), 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 2007). Prior service cost was recognized in the income statement using the straight-line method over 12 years (12 years in 2007).

20. Stock purchase warrants

1 **Expenses recorded in the year ended March 31, 2008 were ¥42 million and were included in selling, general and administrative expenses.**

2 **Content, number, movement and price of stock options**

(1) Content of stock options

Company name	AIR WATER Inc.	Nihonkaisui Co., Ltd
Date of resolution	August 8, 2007	August 30, 2004
Persons granted	18 directors	5 directors
Number of options granted	Common stock 60,100 shares	Common stock 606,349 shares
Date of grant	August 31, 2007	August 31, 2004
Vesting conditions	A 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 1, 2006 to August 31, 2014

Company name	Nihonkaisui Co., Ltd	Nihonkaisui Co., Ltd
Date of resolution	August 30, 2005	September 28, 2007
Persons granted	1 director of a subsidiary	5 directors and 5 employees
Number of options granted	Common stock 60,000 shares	Common stock 408,991 shares
Date of grant	August 31, 2005	September 29, 2007
Vesting conditions	-	-
Name	-	-
Date of resolution	From September 1, 2007 to August 31, 2015	From September 29, 2009 to September 29, 2017

(2) Number, movement and price of stock options

(i) Number of stock options

Company name	AIR WATER Inc.	Nihonkaisui Co., Ltd
Date of resolution	August 8, 2007	August 30, 2004
Before vesting options (number of shares)		
March 31, 2007	-	-
Granted	60,100	-
Forfeited	-	-
Vested	-	-
March 31, 2008	60,100	-
After vesting options (number of shares)		
March 31, 2007	-	372,653
Vested	-	-
Exercised	-	189,888
Forfeited	-	-
March 31, 2008	-	182,765

Company name	Nihonkaisui Co., Ltd	Nihonkaisui Co., Ltd
Date of resolution	August 30, 2005	September 28, 2007
Before vesting options (number of shares)		
March 31, 2007	-	-
Granted	-	408,991
Forfeited	-	-
Vested	-	408,991
March 31, 2008	-	-
After vesting options (number of shares)		
March 31, 2007	26,400	-
Vested	-	408,991
Exercised	26,400	-
Forfeited	-	-
March 31, 2008	0	408,991

(ii) Price per shares

Company name	AIR WATER Inc.	Nihonkaisui Co., Ltd
Date of resolution	August 8, 2007	August 30, 2004
Exercise price (yen)	1	100
Average stock price at exercise (yen)	-	-
Fair value price at grant date (yen)	1,001	-

Company name	Nihonkaisui Co., Ltd	Nihonkaisui Co., Ltd
Date of resolution	August 30, 2005	September 28, 2007
Exercise price (yen)	100	540
Average stock price at exercise (yen)	-	-
Fair value price at grant date (yen)	-	-

21. Business Combinations

Transactions under common control in the year ended March 31, 2008

Air Water Inc. conducted an exchange of shares to make Air Water Safety Service Inc. an affiliated company completely.

(1) Combined entity's name and business

(i) Name and business of combined entity

Name	Business
Air Water Safety Service Inc.	Manufacturing and Sales for medical application and disaster prevention

(ii) Form of reorganization
Exchange of shares

(iii) Name of entity after reorganization
Air Water Inc.

(iv) Outline and purpose of transaction
Against alterative management environment, Air Water Inc. conducted the exchange of shares on August 1, 2007 to establish a more tightly integrated management structure which permitted making decisions more rapidly and improved the thick cooperation.

(2) Accounting method

The Companies applied the following accounting treatments stipulated by the accounting standards for business combinations to the consolidated and non-consolidated financial statements: "Chapter 3, Accounting Standard for Business Combinations, Article 4, Accounting treatment for the transactions under common control, and Paragraph 1, Transactions under common control."

(3) Additional acquisition of subsidiary's shares

(i) Acquisition cost

Common shares	¥2,649 million	(US$26,435 thousand)
Expenses for acquiring the common shares	¥25 million	(US$249 thousand)
Acquisition cost	¥2,674 million	(US$26,684 thousand)

(ii) Ratio of share exchange, basis for determination, number of shares delivered and values
(a) Type of shares and share exchange ratio
Common shares of Air Water Inc. 1: Air Water Safety Service Inc. 0.44

(b) Basis for determination of share exchange ratio
Air Water Inc. applied Daiwa Securities SMBC to calculate the exchange ratio, and decided it as a result of consultations among the affected parties used examples from the calculation.
Daiwa Securities SMBC Inc. calculated the exchange ratio for Air Water Inc. and Air Water Safety Service Inc. share after making a comprehensive appraisal using market prices and discounted cash flow methods.
In addition, Air Water Safety Service Inc. used Nagisa audit corporation on its own terms to assure equity and adequacy of the exchange ratio and acquired the authentication as the adequate exchange ratio from a financial standpoint by it.
Additionally, Daiwa Securities SMBC is not a related party to Air Water Inc. or Air Water Safety Service Inc.

(c) Shares delivered and values
2,043,888 shares (1,843,888 new ordinary shares and 200,000 treasury stocks) at ¥2,649 million (US$26,435 thousand)

(iii) Goodwill, reason for recognizing goodwill, amortization method and amortization term
(a) Amount of goodwill
¥110 million (US$1,098 thousand)

(b) Reason for recognizing goodwill
The Companies accounted for the difference between the acquisition cost to acquire shares of common stock of Air Water Safety Service Inc. and the amount of minority interests decreased as goodwill.

(c) Method and term to amortize goodwill
Straight-line method over 5 years

22. Subsequent events

Appropriation of retained earnings

The Company's Board of Directors' meeting, which was held on May 15, 2008, resolved the year-end appropriation of retained earnings. The appropriations had not been accrued in the consolidated financial statements as of March 31, 2008. 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 (¥12.00 = US$0.12 per share)	¥2,220	$22,153

Independent Auditors' Report

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, 2008 and 2007, 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 consolidated financial position of AIR WATER INC. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 2 to the consolidated financial statements, AIR WATER INC. and its domestic subsidiaries changed the method of depreciation of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 27, 2008

Corporate History

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. 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.
- Aug.1984 High-purity nitrogen generator "V1" is developed. Mini on-site operation for semiconductor equipment manufacturer begins.
- Dec.1992 Cryo-Air Co., Ltd., which has energy-saving type cryogenic air separation equipment 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.

Daido Hoxan Inc.

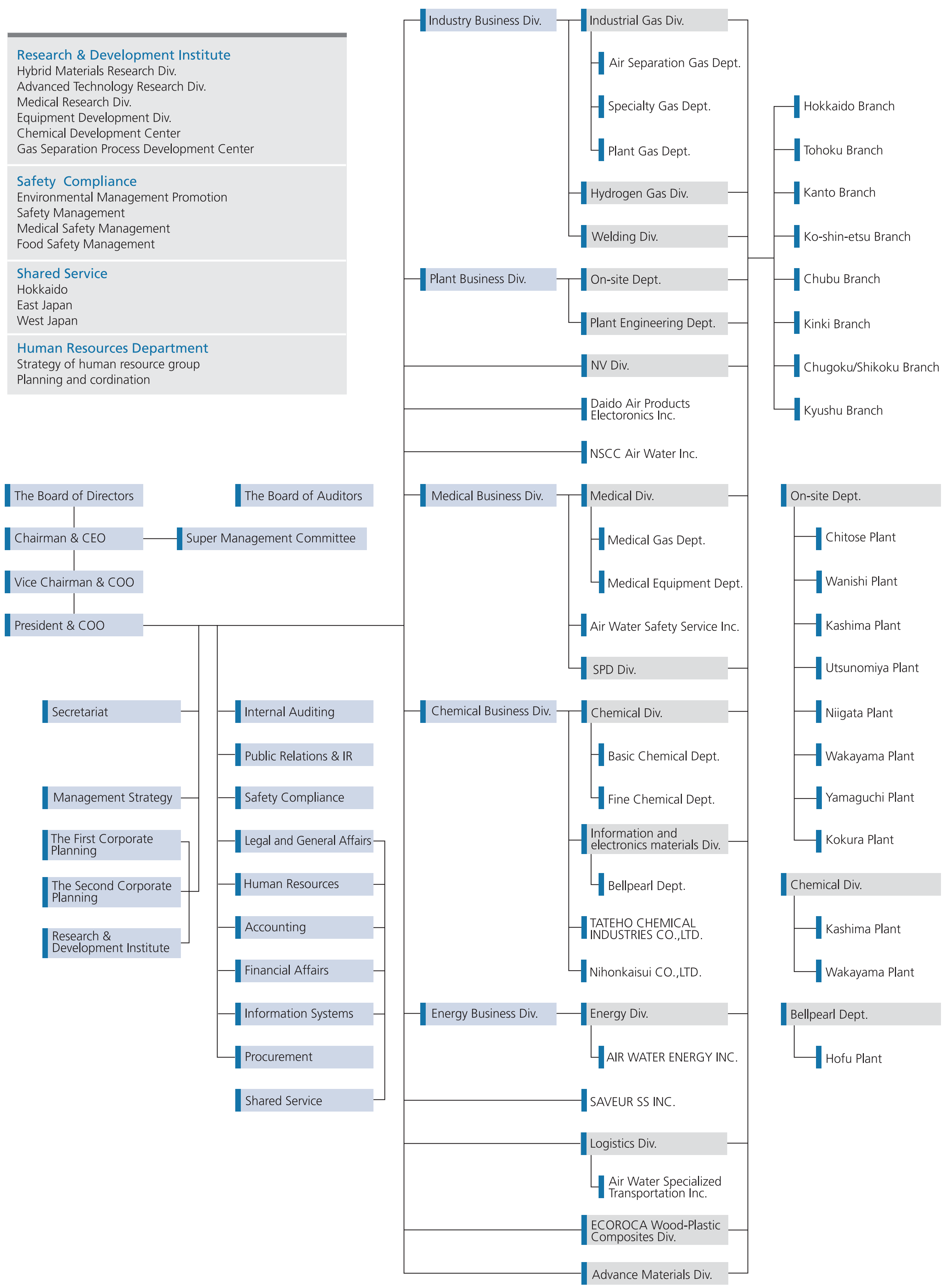
- Apr.1993 Daido Hoxan Inc. is established.
- May.1996 Business alliance between Daido Hoxan and Kyodo Oxygen is formed.
- Jan.1997 Daido Air Products Electronics Inc. is established.
- Apr.1999 Manufacture and sales of LNG begin.

Air Water Inc.

- Apr.2000 Air Water Inc. is established.
- Feb.2001 A three-year medium-term business plan is compiled.
- Mar.2004 Medium-term business plan, "Target 3600", is completed.
- Apr.2004 Compact liquid nitrogen / oxygen co-production plant "VSU" begins operation.
- Jul.2004 NSCC Air Water Inc. is established.
- Apr.2006 Reorganization of chemical Business
- Mar.2007 New midium-term business plan, "Renovation 330" is completed.
- Aug.2007 Air Water Safety Service Inc. became a wholly owned subsidary.
- Oct.2007 Research & Development Institute in Matsumoto, Nagano Prefecture is completed.

Organization Chart

as of August 1, 2008



Corporate Information/Board of Director

Corporate Outline (As of March 31, 2008)

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 Head Office: Sapporo City)
Established	:	September 24, 1929
Paid-In Capital	:	¥25,513 million
Number of Employees	:	7,397 (Consolidated)
URL	:	http://www.awi.co.jp/

Board of Directors (As of June 28, 2008)

Chairman and Chief Executive Officer	Hiroshi Aoki
Vice Chairman and Chief Operating Officer	Masahiro Toyoda
President and Chief Operating Officer	Yoshisuke Misaka
Corporate Executive Vice Presidents	Akira Yoshino / Tadatsugu Mino
Corporate Senior Managing Directors	Hirohisa Hiramatsu / Yoshio Fujiwara / Akira Fujita /
	Noboru Sumiya / Yukihiro Endo
Corporate Directors	Masaki Matsumoto / Noriyasu Saeki / Yuu Karato /
	Yukio Matsubara / Yoshikazu Umeda / Eiji Arita /
	Kazuyuki Toumoto / Fusae Saito
Standing Corporate Auditors	Tomohiro Katano / Tadahiko Handa / Koichi Nakagawa
Corporate Auditor	Taro Ishibashi

Shareholder Information

Principal Shareholders (As of March 31, 2008)

Company	Number of shares held (thousands)	Voting shares owend (%)
Japan Trustee Services Bank, Ltd. (trust accounts)	13,169	7.11%
Sumitomo Metal Industries, Ltd.	10,000	5.40%
The Sumitomo Trust & Banking Co., Ltd.	7,936	4.28%
Sumitomo Mitsui Banking Corporation	6,196	3.35%
The Master Trust Bank of Japan, Ltd. (trust accounts)	6,057	3.27%
Air Water Customers' Stockholding	4,517	2.44%
Sony Life Insurance Co., Ltd.	4,392	2.37%
North Pacific Bank, Ltd.	3,874	2.09%
The Hokkaido Banking, Ltd.	3,800	2.05%
Liquid Gas Co., Ltd.	3,786	2.04%

Shareholder Information (As of March 31, 2008)

Stock Listings	Tokyo, Osaka and Sapporo stock exchanges	
Fiscal Year-End	From April 1 to March 31	
Annual General Meeting of Shareholders	June	
Record Dates	Annual meeting March 31	
	Year-end dividend March 31	
	Interim dividend September 30	
Manager of the Register of Shareholders	The Sumitomo Trust & Banking Co., Ltd.	5-33, Kitahama 4-chome, Chuo-ku, Osaka
Administrative Office of Transfer Agent	The Sumitomo Trust & Banking Co., Ltd.	Stock Transfer Agency Department
	4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo	
Mailing Address and Inquiries	The Sumitomo Trust & Banking Co., Ltd.	Stock Transfer Agency Department
	1-10 Nikko-cho, Fuchu, Tokyo 183-8701, Japan	
Telephone Numbers for Inquiries	TEL 0120-175-417 (toll-free in Japan)	
	TEL 0120-176-417 (toll-free in Japan)	