AIR WATER INC.

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Annual Report 2007 | Year Ended March 31, 2007

ESTABLISHING A DOMINANT PRESENCE

AIR WATER INC.

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Annual Report 2007 | Year Ended March 31, 2007

Pursuing futher application in Advanced Technology
(Research & Development Institute)

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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, 2007, 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, 2007.

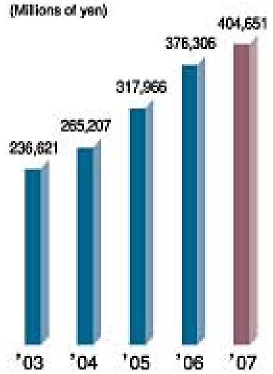
CONSOLIDATED FINANCIAL HIGHLIGHTS AIR WATER INC. and Consolidated Subsidiaries Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)	Increase (Decrease)
	2007	2006	2005	2004	2003	2007	2007／2006
Net Sales	¥404,651	¥376,306	¥317,966	¥265,207	¥236,621	$3,426,632	7.5 %
Cost of Sales	307,557	284,517	235,303	187,594	166,169	2,604,429	8.1
Selling, General and Administrative Expenses	73,997	71,376	64,528	61,602	57,156	626,615	3.7
Operating Income	23,097	20,413	18,135	16,011	13,296	195,588	13.1
Net Income	11,877	9,648	7,803	5,606	4,553	100,576	23.1
Total Assets	329,228	306,366	273,464	239,873	232,629	2,787,941	7.5
Total Shareholders' Equity	—	90,894	76,784	69,721	64,991	—	—
Total Net Assets	118,244	—	—	—	—	1,001,304	—
Cash Flows from Operating Activities	30,648	23,511	21,876	26,330	18,030	259,531	30.4
Cash Flows from Investing Activities	(17,213)	(21,903)	(21,607)	(18,105)	(14,791)	(145,762)	21.4
Cash Flows from Financing Activities	(9,615)	656	(1,118)	(10,012)	(5,992)	(81,421)	—
Cash and Cash Equivalents at End of Year	16,846	12,876	10,357	10,284	11,895	142,654	30.8

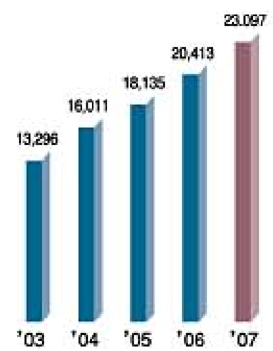
	Yen					U.S. dollars (Note 1)	
PER SHARE OF COMMON STOCK							
Net Income - Basic	¥72.59	¥61.93	¥50.73	¥36.52	¥29.62	$0.61	17.2 %
Net Income - Diluted	64.98	54.17	48.05	33.62	27.24	0.55	20.0
Cash Dividends Applicable to the Year	20.00	17.00	14.00	10.00	10.00	0.17	17.6
Shareholders' Equity	—	559.94	506.52	459.85	428.60	—	—
Net Assets	641.95	—	—	—	—	5.44	—

Notes: 1. Translation into U.S. dollars has been made, solely for the reader's convenience, at the rate of ¥118.09= U.S.$1.00, prevailing on the Tokyo Foreign Exchange Market on March 31, 2007.
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 on accounting standard for presentation of net assets in the balance sheet (ASBJ Guidance No.8, issued on December 9, 2005).

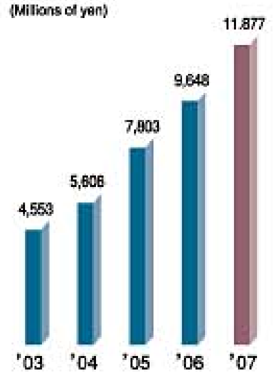
Net Sales
(Millions of yen)



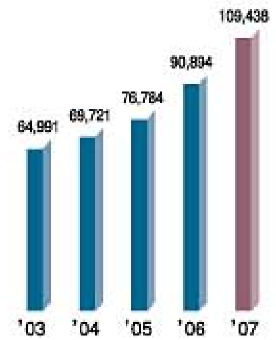
Operating Income
(Millions of yen)



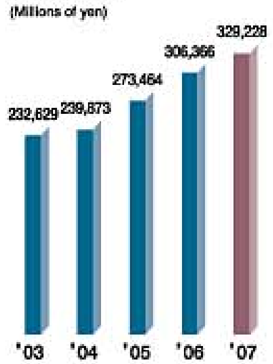
Net Income
(Millions of yen)



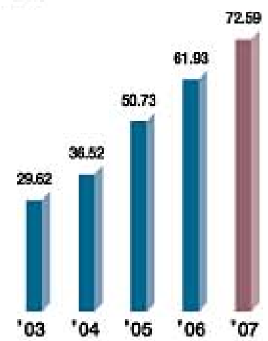
Total Net Assets
(Millions of yen)



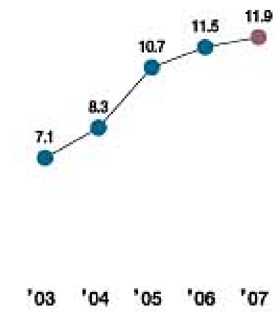
Total Assets
(Millions of yen)



Net Income-Basic
(yen)



Return to Equity
(%)



To Our Shareholders

By further strengthening our position as a technology-driven company, Air Water Inc. is pioneering new fields and enhancing our profitability.

Hiroshi Aoki
Chairman and Chief Executive Officer
Air Water Inc.

New Research & Development Institute
(on the banks of the Azusa River in Matsumoto City, Nagano Prefecture)

Air Water Inc. (AWI) launched our medium-term business plan "Target 3600" in fiscal year 2004. The plan met with remarkable success this fiscal year, year ended March 31, 2007, its final year, far outstripping its original targets. I would like to express my heartfelt thanks to our employees for their efforts and to our shareholders for their support that made this achievement possible.

The Economic and Business Environment in the Fiscal Year and the AWI Financial Condition

This fiscal year saw high level of activities for the steelmaking, electronics, chemicals, and glass industries that form AWI's major customers, as well as for a wide range of other industries such as automobiles, shipbuilding, and construction machinery industries. In this environment, AWI's industrial business and chemical business - our core sectors - showed very favorable results. In addition to increased demand, success was also due to appropriate investment in plant and equipment and strengthening of production systems.

In industrial business, following the construction of a VSU (compact liquid nitrogen/oxygen co-production plant) at Kumamoto Plant in February 2006, we constructed a third VSU at Mikuni Ekisan Co., Ltd. of Fukui Prefecture in April 2006, and began operating a fourth VSU at Tokai Ekisan Co., Ltd. of Aichi Prefecture in March 2007. Besides markedly increasing gas production capacity, we can now respond more rapidly to regional demand.
In fields such as electronics, chemicals and glass, we have increased the number of unique small-scale on-site plants and help customers operate at higher capacities. To meet growing demand for hydrogen, we developed a hydrogen generating system based on the reforming of natural gas and are offering that system to major steel company. In chemical business, 0ur advanced proprietary technologies have enabled us to keep pace with the evolution of electronics materials and functional materials. In industrial and energy business and other segments, in spite of lower profit margins due to rising crude oil prices, we were able to compensate through cost reductions and smooth pricing corrections. To streamline our housing products business, the majority of our shares in subsidiaries in that field were transferred to Matsushita Electric Works Bath & Life Co., Ltd. in October 2006.

Results for the Fiscal Year and for Medium-term Business Plan, and the Dividend Paid for the Term

Results for this fiscal year included consolidated net sales of 405,651 million yen (an increase of 7.5% from the previous fiscal year), operating income of 23,097 million yen (an increase of 13.1%), ordinary income of 25,458 million yen (an increase of 16.4%), net income of 11,877 million yen (an increase of 23.1%), and net income per share of 72.59 yen (an increase of 10.66 yen). At the completion of our medium-term business plan "Target 3600," we far exceeded the plan's target of 360 billion yen in consolidated net sales, with a growth rate of 50.8% in sales from fiscal year 2003. We have thus succeeded in increasing both sales and profits 1.5 fold over the 3 years of "Target 3600." The dividend paid for the term was 20 yen per share, representing an increase of 3 yen over the previous year. The dividend has now been increased for 3 consecutive years.

AWI's Medium- to Long-term Goals as a Technology-driven Company

One of the achievements of "Target 3600" was the expansion of chemical business. AWI's coal chemicals and Bellpearl businesses have been able to undertake business development through aggressive M&A and to expand though institutional reorganization. Tateho Chemical Industries Co., Ltd. as well has become a wholly owned subsidiary. As a result this has become one of core business areas, second only to industrial business.

AWI's medium- to long-term goals are to strengthen our position as a technology-driven company and to establish own unique business model through diversified business development. The chemical business is central to those goals. AWI possesses many unique technologies for meeting advanced needs in such fast-growing areas as electronics materials, functional materials, and pharmaceuticals. While expanding and refining those technologies, we also made great progress in reorganizing and strengthening our position in these areas.

The basis for a technology-driven company is technological development, and it is important that we continue to offer new and more advanced products. Serving as a research and development headquarters, AWI's new Research & Development Institute was completed and began operations in July 2007 in Matsumoto City, Nagano Prefecture. Combining research and development in AWI's two core business areas of gases and chemicals, the new Research & Development Institute will network with 7 nationwide regional research facilities that focus on application research. It will also strengthen our collaboration with government, academic and industry institutions for developing a wide range of technologies. This new facility is thus expected to play a leading role in AWI's medium-term business development. The new Research & Development Institute's location in Matsumoto City means it enjoys clean air and pure water that is the very roots of AWI. Besides being one of Japan's leading regions of culture and learning, Nagano Prefecture is also well known for its high concentration of companies in high-tech industries such as electronics, optics, and precision instruments. This is the ideal location to launch the technologies of tomorrow.

AWI's New Medium-term Business Plan "Renovation 330"

In April 2007 we launched the new medium-term business plan, "Renovation 330." Continuing until the end of fiscal year 2009, this plan is aimed at expanding AWI's business by concentrating corporate resources in high-growth areas, while also enhancing profitability through strategic reorganization of our businesses. The goal is to accelerate qualitative improvements and make AWI an even more profitable company, with an ordinary income target of 33 billion yen by the end of the 3-year plan. In fiscal year 2009, AWI will celebrate its 10th anniversary under the present corporate name. This first decade represents our first step forward into the first half of the 21st century, as we actively tackle the challenges that the future will bring.

Regarding corporate governance and regulatory compliance, AWI remains committed to a spirit of corporate social responsibility. We continue to work to make company fully worthy of the respect of society and the trust of our shareholders, customers and employees, as we establish AWI as the commanding presence in the industrial gas industry.

We sincerely look forward to the continued support of our shareholders and stakeholders.

H. Aoki

Hiroshi Aoki
Chairman and Chief Executive Officer
Air Water Inc.

New Medium-term Business Plan "Renovation 330"

In April 2007 we launched our new medium-term business plan "Renovation 330." Its aim is to continue structural reorganization of our businesses while capitalizing on our strengths as a technology-driven company to further expand our business and enhance profitability.

Anticipated Medium-term Business Environment

The steelmaking, electronics, chemicals, glass, and other industries that comprise AWI's major customers are expected to continue operating at a very high capacity, leading to growing demand for industrial gases. In the field of electronics, increasing demand is foreseen for chemical products, in particular new materials and functional materials. In the medical field, as Japan's population continues to age and the government implements new measures to limit medical expenses, the medical system is undergoing structural changes with the emphasis shifting to local and in-home medical and nursing care services. In our LPG supply business, conditions are expected to remain very tight due to increases in CP prices and competition with electric power.

Basic Polices of the New Medium-term Business Plan

In today's business environment, new medium-term business plan is aimed at concentrating our management resources on growth fields such as electronics and new materials, and accelerating our structural reorganization and technological development with the transformation into a high-profit company.

Renovation 330

【Basic Policies】

Following the business expansion achieved with our previous medium-term business plan "Target 3600," in addition to continuing structural reorganization in every area of our operations, Renovation 330 will concentrate management resources on growth fields to further increase our profitability. The goal is to accelerate qualitative improvements so that AWI becomes even more profitable, targeting 33 billion yen in ordinary income by the end of the 3-year plan.

【Management Targets】

The numerical management targets of Renovation 330 are to reach 470 billion yen in net sales (a 16.1% increase over fiscal year 2007), 31 billion yen in operating income (a 34.2% increase), ordinary income of 33 billion yen (a 29.6% increase), and net income of 17 billion yen (a 43.1% increase) for fiscal year 2009, the final year of the 3-year plan. Though net sales have the decrease according to the sale of the housing products business, And a growth rate of 20% or more for operating income, ordinary income, and net income. Regarding management indices, Renovation 330 calls for an ordinary income ratio of 7.0%, a ROE of 12%, an equity ratio of 40%, and a D/E ratio of 0.6.

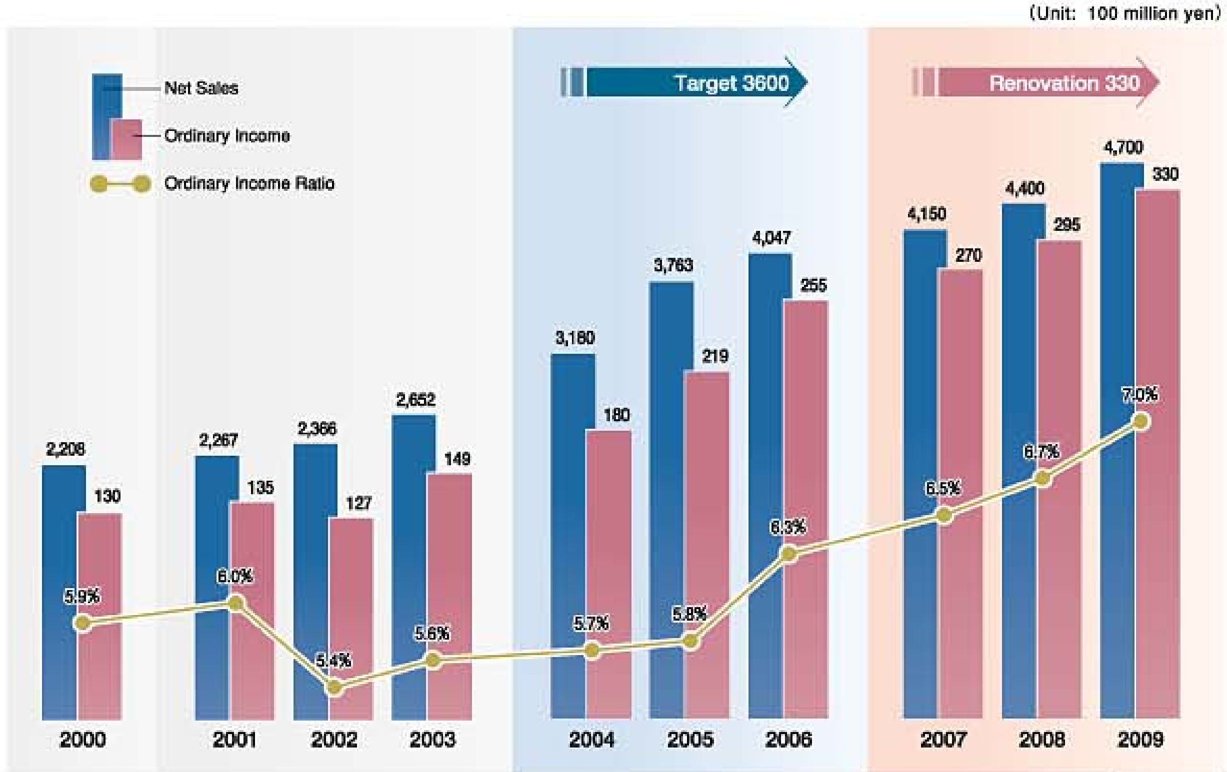
(Unit: 100 million yen)

		Renovation 330			3-year	
	FY2006	FY2007	FY2008	FY2009	Increase or Decrease	Growth Rate
Net Sales	4,047	4,150	4,400	4,700	653	116.1%
Operating Income	231	250	275	310	79	134.2%
Ordinary Income	255	270	295	330	75	129.6%
Net Income	119	140	150	170	51	143.1%

Management Indices FY2009	
Ordinary Income Ratio	7.0%
ROE	12%
Equity Ratio	40%
D/E Ratio	0.6

Projected advances in performance under Renovation 330

(Unit: 100 million yen)



(Fiscal year)

【Basic Strategies】

To reach the management targets of Renovation 330, we formulated 3 basic strategies that we began implementing from April 2007. The key points are:

1 Reengineer businesses & boost earning power

- Focus management resources on growth fields(a total capital investment of 100 billion yen: 70 billion yen for plant and equipment, and 30 billion yen for M&A)
- M&A in growth fields such as electronics materials, fine chemicals, and medical.
- Reinforce regional base in industrial, medical, and LP gas through alliances with local dealers.
- Business restructuring and integration to make M&A more effective.

2 Creation of technology-driven business and business renovation

- Open a new Research & Development Institute in Matsumoto City, Nagano Prefecture as a headquarters for advanced R&D and as a symbol of AWI as a technology-driven company.
- Strengthen development capabilities in the electronics and medical areas by integrating gas and chemical technologies and through closer collaboration with government, academic, and other industry-elated institutions.
- Increase R&D efficiency and shorten the time to commercial application by introducing the Stage-Gate System.

3 Reinforce financial position

- In July 2007 we completed early redemption of 20 billion yen in convertible bonds. By building up our internal reserves, we are increasing AWI's total net assets and accelerating capital investment in growth fields.
- Channel the cash flows from operating activities for 3 years to enable active capital investment.
- Equity ratio of 40% and D/E ratio of 0.6 by fiscal year2009

Employing unique technologies to meet customer needs through diversified business development.

Diversified business development centering around AWI's core technologies in gases and chemicals
Utilizing our unique technologies in various fields, we are building a technology-driven company through the synergy achieved by integrating technologies and diversifying business development.

Net Sales by Segment (for the year ended March 31, 2007)

※Following the sale of housing products unit, Consumer Products targets are included with Logistics, etc in fiscal year 2007.

GASES &CHEMICALS

Industrial Business

AWI offers a wide range of services — from engineering to maintenance — covering all types of gas processes centered around core operations of gas production and sales, while also earning solid market trust through onsite operations in industries such as steelmaking, electronics and chemicals.

Chemical Business

The technological revolution continues to accelerate in such cutting-edge fields as information and electronics materials, intermediates for pharmaceuticals, and functional materials. Our many unique technologies in these fields — both organic and inorganic — make the chemical business vital for the company's future.

Medical Business

In addition to the core medical gases business, AWI is creating a unique business model by developing a "Total Hospital Support", which provides a wide range of products and services for clinical settings, and a "Home Care Support", which supports medical and nursing care in the community and home.

Energy Business

Concentrated primarily in Hokkaido, AWI's LPG supply business is well known under the brand name "Hello Gas." A natural gas supply business in Hokkaido's Chitose area takes full advantage of being located close to the largest gas field in Japan.

Other Businesses

AWI's logistics business, food products business, and ECOROCA business are all growing. In the logistics business, in addition to providing logistics services for the Air Water Group we are also developing a business providing third party logistics services. AWI's food products business is winning high praise from food service professionals and the HMR (home meal replacement) market, and the ECOROCA business produces wood-plastic composite material made from unutilized or recycled resources.

AWI's Industrial Gas Business Is Evolving with the Technological Revolution and Expanding Demand.

AWI's industrial gas and related businesses meet the needs of industry and provide vital support for the manufacturing sector. Keeping pace with the ongoing technological revolution and growing demand, we offer an array of advanced technologies and services. Two areas we have recently been focusing on are expansion of local gas supply facilities and development of hydrogen production technology.

Tokai Ekisan VSU

Technologies and Services Perfected Through Relationships with Companies in the Steelmaking, Chemicals, and Electronics Industries

One factor characterizing AWI's industrial gas business is the strong relationships we have developed with companies in primary industries such as steelmaking and chemicals, as well as with electronics-related companies. In addition to on-site industrial gas supply for companies such as Nippon Steel Corporation, Sumitomo Metal Industries, Ltd., Mitsui Chemicals Inc., we have also developed close relationships with electric furnace steel manufacturer such as Kyoei Steel Ltd., and Osaka Steel Co., Ltd. Our industrial gases perform vital functions in supporting the huge plants and high-tech processes of these companies at the forefront of the technological revolution. In October 2006, AWI acquired the gas operations of the Hikari Plant of Nippon Steel Chemical Co., Ltd. and began supplying gas on-site for Nippon Steel & Sumikin Stainless Steel Corporation, Nippon Steel Materials Co., Ltd. and Siltronic Japan Corporation, as well as carrying out outside sales, further strengthening our business base in this area. The technologies and services we have developed in these fields also contribute to many other fields of industry. Emphasizing technological innovation, AWI is developing a wide range of other businesses, such as the manufacture of gas plants and process equipment, the provision of advanced solution services to the electronics industry, and the outsourcing of services by putting our gas technologies.

A Business Model of Trust Established Through an Integrated System of Production and Sales

Another factor characterizing AWI's business is an integrated system of production and sales. We produce our gas products ourselves, deliver those products to the customers ourselves, and also provide total solution services - from engineering to maintenance - to support gas processes. This unique business model is based on our belief in providing fully integrated services, because the gases we produce and sell are so indispensable to our customers' business operations. This business model was made possible by technology and expertise accumulated through close, trust-based, relationships with customers in primary industries. It also serves as the framework for collaboration in technology development, for our merger and acquisition activities, and for various business alliances.

Mikuni Ekisan VSU

Expanding a Network of Local Gas Supply Facilities Using VSUs

AWI's local gas supply facilities represent a combination of gas production technology, operational know-how, and integrated production and sales system. As the manufacturing industry undergoes structural changes, industries rooted in the local community are evolving and new industrial centers are emerging. To respond to such local demand, AWI has been focusing on gas production and sales by expanding a network of local gas supply facilities.

AWI's VSU is a compact liquid nitrogen/oxygen co-production plant in volumes that can be freely adjusted according to demand. AWI's first VSU was constructed at the Niigata Plant in 2004, and we have since been pursuing expansion through alliances with local gas dealers. In February 2006 we began operating a VSU at the Kumamoto Plant of NSCC Air Water Inc. in Kumamoto Prefecture and then at the Mikuni Plant of Mikuni Ekisan Co., Ltd. of Fukui Prefecture, which opened in April of the same year. In March 2007, the Head Office Plant of Tokai Ekisan Co., Ltd. of Aichi Prefecture was completed, enabling us to respond to increasing local demand. Expansion of our network of local gas supply facilities is an important strategy of the new medium-term business plan, "Renovation 330," and we will actively continue our expansion.

World-leading Technology for the "Hydrogen Age"

Fuel cells are seen as a promising next-generation energy source, and hydrogen production technology is key to the practical realization of fuel cells. As a leader in the production of industrial gases, AWI was quick to begin work on the development of new hydrogen gas production technology. In April 2006 we completed a VH hydrogen generator, and began operation of it at the Yamaguchi Plant, and on-site supply to the Kudamatsu Plant of Toyo Kohan Co., Ltd. That was followed in September by the start of operations of a second VH system at the Funabashi manufacturing Plant of Nippon Steel & Sumikin Coated Sheet Corporation. Generating hydrogen by reforming natural gas, this system is the world's first practical application of the heat neutralization method for reforming, and is made possible by a high-performance catalyst developed by AWI. In February 2007 we acquired Sumitomo Corporation's 20% share in Sumisho Air Water Co., Ltd., and on July 1, 2007, the company was renamed Air Water Hydrogen Corporation, further strengthening the AWI Group's hydrogen business.

Supplying CoJet™ Systems to Electric Arc Furnace Steelmakers

AWI has engaged a sales agency contract with Praxair Inc., a major industrial gas company in global market, for their CoJet TM gas injection system (supersonic jet oxygen injection and burner system) developed specifically for electric arc furnaces. This system delivers a supersonic laser-like oxygen jet into the molten steel bath in the furnace with the technical benefit of highly efficient decarburization, and it is expected to revolutionize electric arc furnace operations. As of September 2006, AWI has supplied CoJet TM systems at 4 electric arc furnaces steel making companies, being the domestic leader in this field. We plan to further expand the system sales as the leverage for our oxygen gas sales.

Cylinder filling

[Industrial Gas Production and Sales Business]
AWI provides gas technologies and services to meet the needs of Japan's advanced manufacturing industry.
At the heart of these operations is AWI's industrial gas production and sales business. We have constructed VSU cryogenic air separation systems and various other gas production systems at our main plants at local facilities throughout Japan for the production of industrial gases such as oxygen, nitrogen, argon, hydrogen and carbon dioxide; welding and cutting gases; and rare gases such as neon, krypton and xenon, all of which AWI directly markets through own distribution system. In this way we have earned the trust of customers in primary and high-tech industries as well as local industries.

Wakayama Plant Air Separation Plant No. 12

[On-site Business]
On-site Gas Supply to Primary Industries Is One of AWI's Core Businesses
One characterizing feature of AWI's industrial gas supply business is on-site supply. We have constructed AWI gas production plants inside or adjacent to customers' plants for industries such as steelmaking, chemicals, and electronics, enabling us to supply gas directly to the customer's processes. We have on-site supply operations at three steel works of Sumitomo Metal Industries, as well as at Nippon Steel Corporation, Kobe Steel, Ltd., Mitsui Chemicals, Inc and other companies. Some of the gases produced at those locations are also sold externally.

V2, V3

[Plant Gas Business]
A Business Model Made Possible by Unique Technologies
The V Series compact cryogenic air separation plants (V1 high-purity nitrogen generator, V2 oxygen generator, and V3 combined oxygen-nitrogen generator) that AWI has been developing since the 1980s, and now have become a common standard for electronics, glass and the other industrial fields. The on-site plant installation of such systems has rapidly progressed. AWI's on-site gas plant business includes providing complete backup service and support, from the facility management and maintenance as well as installing the V Series, PSA (pressure swing absorption) type oxygen and nitrogen generators, VH Hydrogen generator Using Thermo-Neutral Reforming and other equipment.

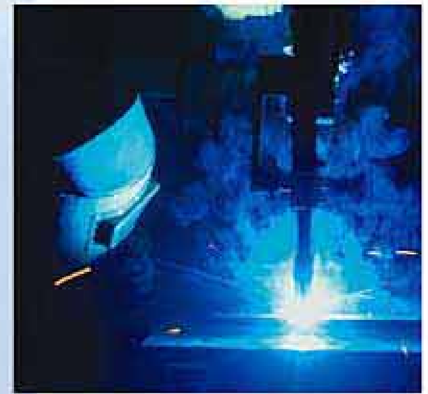
Fabrication of gas supply systems for semiconductor production

[Engineering Business]
Equipment and Devices for Every Type of Process
In our engineering business, AWI offers the full range of engineering products and services, from own original compact and full-size air separation systems and gas generating systems for hydrogen and other gases to various types of gas processes, providing total support for industrial gas related needs. AWI is also an expert in advanced engineering areas such as various types of pulse tube refrigerators employing ultra-low-temperature, insulated storage equipment utilizing high-vacuum technology, and high-purity gas supply systems as well as piping and exhaust gas processing systems for the electronics industry. We also market a ultra-high vacuum CVD system (VCE) for epitaxial growth which can cope with the formation of Si or compound semiconductor films.

[Electronics Business]
Providing Advanced Technology Developed Specifically for the Semiconductor Industry
Electronics is at the cutting edge of the technological revolution. AWI Group company Daido Air Products Electronics, Inc. - a joint venture with the major industrial gas company Air Products and Chemicals, Inc. of the USA - provides specialized solution services that meet the advanced needs of the electronics industry. The company's gas-related operations center bulk gases around on-site supply of high-purity nitrogen gas and specialty gases such as nitrogen trifluoride, monosilane, and trimethyl silane. In the field of high-purity chemicals, Daido Air Products Electronics is primarily developing a product lineup of Air Products and Chemicals' Schumacher brand chemicals and supply systems as well as SAFC Hitech (former Epichem) products while also offering integrated on-site utility supply services.

Nitrogen trifluoride ISO module

[Welding Business]
Providing a Wide Range of Products and Services for the Fields of Welding, Thermal Cutting, and Heat Processing
Welding and thermal cutting gases are used in all types of industries, including steelmaking, shipbuilding, automobiles, construction machinery, and metalworking. The "ELNACKS" argon welding gas developed by AWI contains a small amount of oxygen in addition to argon and secured AWI the largest domestic market share for argon welding gas. Aqua Gas Generator, which generates fuel gas for gas cutting, mixes propane and other gases with hydrogen and oxygen generated by electrolysis of water. This helps increase cutting speed, improves cross section quality, and enables dross-free cutting. In addition to supplying such gases, AWI also offers a lineup of welding robots, plasma cutting systems, and a wide range of related equipment.



"ELNACKS" welding by a welding robot

[Surface Treatment Business]
Using Gas Technology to Improve the Surface Hardness and Appearance of Metals
NV nitriding is an advanced metal surface treatment technology developed by AWI for improving metal surfaces by processing in an atmosphere of a special mixed gas called NV gas. Representing the ultimate evolution of gas nitriding, the "NV Process" is applicable to a wide variety of steel types, and "NV Pionite" increases the durability of austenitic stainless steel. "Maizool" is a surface treatment technology that provides excellent wear resistance and abrasion at high temperatures over 600℃. AWI uses these systems to provide outsourcing services, and they are also widely used in the manufacture of such products as automobile parts, motor parts, and watches.

Motorcycle crankshafts

Offering a Wide Range of Other Solutions
[Maintenance Business]
AWI offers total maintenance services, undertaking the challenges of increasing equipment lifespan, minimizing environmental impact, and reducing maintenance and management costs. These services are backed by unique technologies and expertise accumulated through operation of onsite plants at steel manufacturer.

[Aerosol Business]
AWI produces a wide range of aerosol products including spray paints, cooking oils, disinfectants, deodorants, cleaning agents for PCs, insect repellant, anticorrosion agents, lubricants and canned oxygen, under OEM contracts as well as under our own brands.

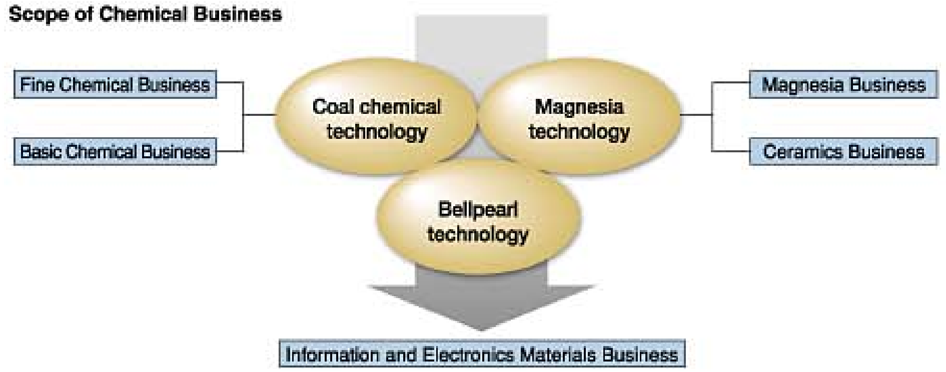
[Mach Business]
AWI also possesses unique technology for producing such products as high-performance O-rings, ultrahigh-performance fluororubber O-rings for semiconductor and LCD production equipment.

Compressor disassembly and maintenance

Responding to the Evolving Needs of High-tech Industries through Specialized Chemical Technologies

Innovation is a constant theme in advanced industries such as electronics, medicine, automobiles and environmental equipment AWI responds to these needs with unique chemical technologies.
Meeting tomorrow's needs with proprietary technologies such as coal chemical technology, functional resin technology, and magnesia technology

Scope of Chemical Business



AWI's Chemical Business - Based on a Unique Concept and Outlook

AWI's chemical business has become second core business. Technologies of the business include coal chemical technology, Bellpearl, and magnesia technologies. These technologies come from AWI's unique concept and outlook of their own, and have developed into business that will meet the needs of tomorrow.

【Coal Chemical Technology】

AWI's coal chemical technology is the product of our close relationship with the steelmaking industry. After establishing technology for extracting and purifying useful components from coal tar and coke oven gas, in 1990 we constructed a multi-purpose synthesis plant at the Kashima Steelworks of Sumitomo Metal Industries, Ltd. and start fine chemicals business. The fine chemical products, primarily aromatic compounds such as naphthalene ring compounds and quinoline ring compounds, are used in a wide range of industrial applications to meet the needs of various high-tech fields.

【Bellpearl Technology】

Bellpearl® is a revolutionary functional phenolic resin developed using a unique new concept and technology based on Bakelite, the first synthetic resin discovered almost a century ago. Bellpearl is one of AWI's proprietary technologies and has been registered substance patents both in Japan and overseas. Both Bellpearl and the related product Bellfine®, a functional new carbon, are attracting attention as highly functional new materials.

【Magnesia Technology】

Focusing on the traditional salt production method of Ako in Hyogo Prefecture, a new business was launched after the Second World War by successfully separating magnesia from bittern. A subsidiary Tateho Chemical Industries Co., Ltd. was the first in the world to commercially apply this technology, obtaining numerous patents both in Japan and internationally. By further refining this proprietary technology, Tateho Chemical has developed various magnesia-related products and ceramics-related products that today are indispensable in a wide range of high-tech fields.

Kashima Plant Environmental Management Center

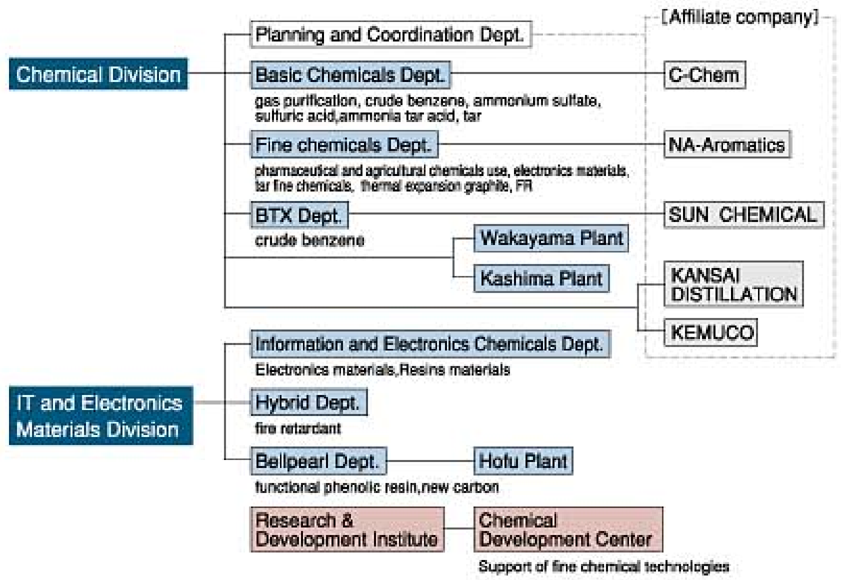
Strengthening Business through the Establishment of a New Information and Electronics Materials Division

Being each division in AWI's chemical business previously managed independently, in 2006 we carried out a major integration and reorganization to expand our potential. In February we made Tateho Chemical Industries Co., Ltd., a wholly owned subsidiary of AWI, and in April we merged Air Water Chemical Inc. and Air Water Bellpearl Inc., and established the Chemicals Division and the Bellpearl Division. In January 2007 we integrated the electronics materials technologies of the Chemicals Division and Bellpearl Division to establish a new Information and Electronics Materials Division. Besides strengthening our technological capabilities in electronics, this structural integration and reorganization has also streamlined the decision-making process and enables prompter response to customer needs, while enhancing collaborative synergy with the Electronics Materials Department at Tateho Chemicals.

AWI's Chemical Business Is Vital to New Medium-term Business Plan

Strengthening our business in various high-tech industries is a central strategy of our new medium-term business plan, "Renovation 330," that we launched in April 2007. The heart of this strategy is chemical business. AWI has many unique proprietary technologies, such as in fine chemical business with its strengths in pharmaceutical and agricultural chemical intermediates and functional materials; Information and Electronic Materials business, which employs polycyclic aromatic compounds and Bellpearl as raw materials; and magnesia business, which boasts dominant market shares for the production of electrical steel sheets, PDPs (plasma display panels), thin film, and others. AWI is fully utilizing these technologies to enhance business performance through various synergies, and the development of new applications.

Chemicals Division - Organization



Tar distillation plant
at the Kashima Plant

【Basic Chemical Business】
One of the World's Leading Producers of Petrochemicals

Coke oven gas and tar are byproducts generated in the production of coke used in blast furnaces. AWI's basic chemicals business involves the separation and purification of coke oven gas and distillation of tar. The crude benzene obtained from coke oven gas is the raw materials for benzene, toluene, and xylene (collectively referred to as BTX) used for starting materials for petrochemicals, and ammonium sulfate obtained from gas purification is widely used as a fertilizer. Established as a joint venture between Air Water and Nippon Steel Chemical Co., Ltd., C-chem Co., Ltd., has a tar distillation capacity of 800,000 tons a year and boasts the largest share of the Japanese market.

GMP-compliant plant at the Kashima Plant

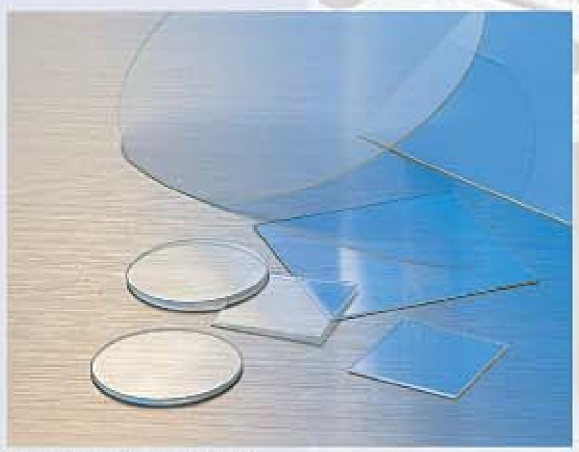
【Fine Chemicals Business】
Developing High-tech Materials Using Primarily Tar-based Synthesis Technology

AWI has developed its fine chemicals business based on tar chemicals. The tar generated as a byproduct in the process of the production of coke for steelmaking contains numerous substances with unique properties that are difficult to obtain from other sources, such as polycyclic aromatic compounds (naphthalene, methyl naphthalene, etc.), and heterocyclic compounds (quinolines, indoles, etc.). Our Fine Chemicals Department produces a wide variety of chemical products by separating and purifying those substances and then applying advanced organic synthesis technology. Recently we are focusing on high value-added pharmaceutical and agricultural chemical intermediates and the fast-growing area of carbon materials, and for producing pharmaceutical intermediates we have constructed a GMP (Good Manufacturing Practice) compliant plant at our Kashima Plant. Another important product in our fine chemicals business is thermally expandable graphite (TEG), a functional material widely used for gaskets and as a fire retardant agent.

Intermediates for Pharmaceutical
and agricultural chemicals

Functional materials
(TEG: thermally expandable graphite)

Sealing materials



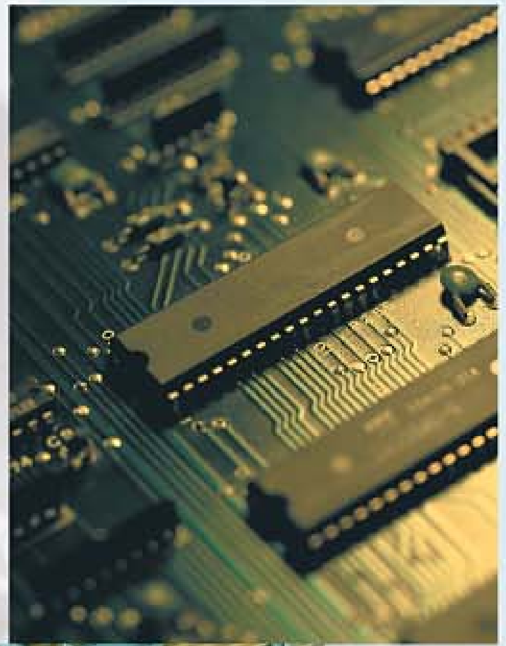
Substrates for thin film formation

【Magnesia Business】
One-of-a-kind Technology

The magnesia-related business developed by Tateho Chemical represents a one-of-a-kind technology. Tateho Chemical's magnesium oxide is indispensable for producing the world's highest grade electrical steel sheets, and the company's electrofused magnesia has captured a major share of the market for insulating materials for electric heaters. Tateho Chemical also boasts the top share of the global market for single crystal MgO, which features excellent antisputtering, insulating, thermal conduction and optical properties. It is widely used in applications such as PDPs and substrates for thin film formation. The company also utilized its expertise in magnesia technology to develop unique technologies for ceramics, widely used as industrial and structural materials. Thanks to these advanced technologies, Tateho Chemical is a global leader and the Tateho brand name is well-known worldwide.

【Information and Electronics Materials Business】
Featuring Advanced Electronics-related Technologies, a Vital Area of Chemical Business

AWI has earned the trust of the electronics industry with advanced technologies for producing a wide variety of electronics materials, including materials for LCDs and PDPs, semiconductor sealing materials, and substrates for thin film formation. Information and Electronics Materials business integrates these technologies to meet increasingly advanced needs. In particular, we have been strengthening our electronics materials-related fine chemicals products, involving application of liquid phase air oxidation technology; and Bellpearl Department produces new phenolic resin products used for a wide range of electronics materials. We have been expanding these business areas through close synergy with the electronics materials technologies of a subsidiary Tateho Chemical.



IC chips
(examples of applications
as electronics materials)

【Bellpearl Business】
With Japanese and Overseas Substance Patents, Bellpearl Is Attracting Attention as a New Material

Bellpearl® is a new type of resin with a chemical structure completely different from previous phenolic resins, and substance patents have been registered both in Japan and overseas. Bellpearl boasts exceptional properties such as high heat resistance, high strength and chemical resistance, and it contains no formaldehyde, making it very eco-friendly. Thanks to these properties, Bellpearl is widely used for shaped and unshaped refractory materials for steel related industries, for automotive parts such as clutches and brakes, and in adhesives for plywood. Bellfine, a carbon material made from Bellpearl that features different functions achieved through our unique carbonization and firing technology, is used as an electrode material for the coin-type electric double-layer capacitors in cellular phones, and is now under development as an electrode material for hybrid electric vehicles.

Bellpearl plant at the Hofu Plant

Bellpearl New Carbon

Electrode material
for electric double-layer capacitors

Pursuing further application
in Bellpearl technology

Pursuing further application
in magnesia technology

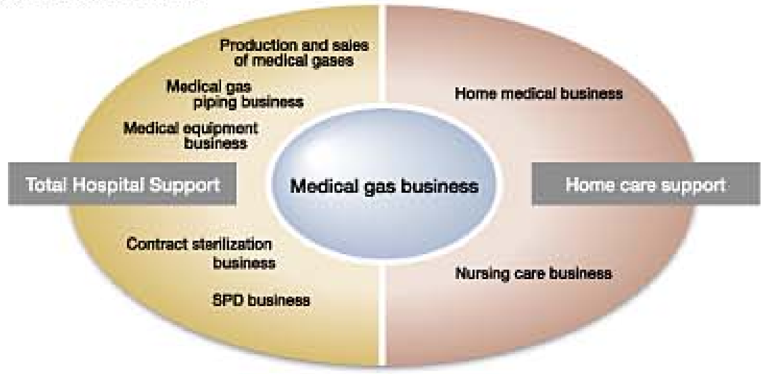
Light-burned magnesium oxide
and MAGSTAR® magnesium hydroxide

MIRACRYSTAR®
single crystal MgO

Medical Business

Developing Advanced Solutions from the Clinical Setting to Local Nursing Care

Medical Division's Business Areas



As a top producer of medical gases, a responsibilities and provision of services is essential.
As Japan's birth rate continues to fall and the population is aging, healthcare and welfare services are becoming increasingly important and the technology is evolving.
In these times of change, AWI's medical-related business provides trustworthiness and peace of mind.

AWI's Total Hospital Support - Offering Valuable Support in the Clinical Setting and for Hospital Management

Medical technology is rapidly advancing. At the same time, measures introduced by the Japanese government to keep medical expenses in check are making the management of medical institution more difficult. Improving hospital management is becoming as important as maintaining a high level of healthcare, and AWI's Total Hospital support addresses this need.

Around our core medical-related business of supplying medical gases, AWI is developing medical infrastructure business, such as the design and construction of gas supply systems, operating rooms and other facilities; medical equipment business for supplying ventilators, circulatory system equipment, artificial dialysis equipment and operating room equipment; and services business such as contract sterilization services and SPD (supply, processing, and distribution) services.

By synergistically developing these various business areas, AWI has established a unique business model for creating the ideal medical environment. In addition to being a top producer of medical gases, our direct sales system enables us to achieve a significant synergistic effect among these businesses. We have also been pursuing an active merger and acquisition strategy, acquiring medical equipment manufacturers and medical gas and equipment dealers to expand both product lineup and gas supply capacity. With the start of full operation of new Research & Development Institute in Matsumoto City, Nagano Prefecture, it will serve as an important base for our medical-related business. This will not only integrate medical technologies with gas and chemical technologies, but also accelerate our efforts to strengthen the technological capabilities of medical-related departments. The new medium-term business plan we launched in April positions our medical business as one of key growth strategies, and we will continue to offer a wide range of support services for the clinical setting.

Kanto Total Medical Center (sterilization)

Strengthening Medical Gas Piping Business, and Operating Room Equipment & Construction Business

In August 2006 we changed the name of our consolidated subsidiary, Kawasaki Safety Service Industries, Ltd., to Air Water Safety Service Inc. to clearly position it as part of the AWI Group, and have been further strengthening the company's medical gas piping business and operating room equipment and construction business. Air Water Safety Service supplied a variety of medical equipment for the 11 operating rooms at the University of Tokyo Hospital's new central diagnostic & treatment wing which was completed in November 2006. In October 2006, Seiken Medical Co., Ltd., a leader in hospital environmental management in such areas as sterilization, cleaning and maintenance services, became a subsidiary of Air Water Safety Service. Having developed Japan's first oxygen ventilator for use in coal mines back in 1927, Air Water Safety Service has a long history in the field, and in addition to standard ventilator possesses advanced technology for breathing apparatuses and fire extinguishing equipment used by rescue teams.

Home Care Support Business - Meeting the Local Medical and Nursing Care Needs of an Aging Society

Even as Japan's average lifespan continues to increase, the population has begun to decrease. As a result, the population is aging faster than in any other country. As part of the Japanese government's revision of the national health insurance and medical systems, measures to move recuperating patients from long-stay hospitals to nursing care facilities or home-based care has already begun, and the importance of local medical and nursing care services continues to grow. AWI has been quick to address these needs. Our home care support includes the sale and rental of equipment for in-home oxygen therapy, in-home visit nursing services, operation of nursing care facilities, and visiting nursing care. These solution services were made possible by the close relationships AWI has established with medical institutions through Total Hospital support. Although we have been involved in welfare-related businesses for more than 10 years now, our work in this field has really just begun. We will continue to develop this area of business while making maximum use of the know-how already accumulated.

Artificial air system for medical use

[Production and Sale of Medical Gases]
The Roots of "Total Hospital" Support

Production of medical gases is a basic part of the effort to save lives. AWI supplies oxygen, nitrogen, anesthetic gases, sterilization gases, liquefied helium for MRI as well as other medical gases, and boasts the largest share of the Japanese market for these products. One product now being promoted is an artificial air generating system. It provides a safe, reliable supply of clean, pure air onsite at medical institutions, and is used by many large hospitals throughout Japan. We also offer backup gas supplies delivered via tank truck, as well as in cylinders.

Operating room equipment

[Medical Gas Piping Business]
Proven Technology Supports Hospital Construction and Renovation

AWI's medical gas piping business involves the sale of equipment and construction of piping systems for supplying medical gases to operating rooms, ICUs, patient wards, and other hospital areas. Air Water Safety Service has years of experience in the field and has earned the trust of many medical institutions. For operating rooms they offer total solutions, from gas equipment to various surgical equipment and even photocatalyst antibacterial wall panels. The numerous orders received include the operating rooms at the University of Tokyo Hospital's new central diagnostic & treatment wing.

Open and
closed-circulation type incubators

[Medical Equipment Business]
Ventilators and Cardiovascular-Related Equipment

AWI has a long history of supplying respirators and related equipment directly connected to medical gases. We have also formed business alliances and concluded dealer contracts with various leading manufacturers, such as Sechrist and Viasys of the United States. This has enabled us to offer Hyperbaric oxygen chamber, ventilators, incubators, artificial resuscitation systems, electrocautery scalpels, and a wide range of other medical equipment, as well as umbilical cord blood frozen storage and other cryopreservation systems. Active M&A activities have enabled us to expand our product line to include such products as operating room equipment, cardiovascular system-related equipment, and injection needles. In each of these areas, AWI possesses the specialized knowledge and technology needed to meet advanced needs, and we have earned the respect of the medical community.

Ventilator

Ethylene oxide (EO) gas
sterilizer exhaust-gas treatment unit

[Contract Sterilization Business and SPD Business]
Solution Services Supporting Sound Hospital Management

Japanese government measures to keep medical expenses in check, such as reducing reimbursements under the national health insurance system, has put pressure on hospital management. Outsourcing non-medical tasks is the recommended solution, and to meet this need AWI developed contract sterilization services and SPD (supply, processing, and distribution) services. This business model was made possible by fully integrated production and sales system, and we have signed service contracts with numerous medical institutions. AWI's contract sterilization business is the largest in the industry, and SPD business capitalizes on the advantageous position as a manufacturer.

Contract Sterilization Center

[Home Medical Business]
Offering Home Medical Support Suited to the Local Community and Providing Patients with Peace of Mind

Respiratory disease patients require long-term respiratory management, and AWI's home medical business meets this need. We provide oxygen concentrators and stationary type liquefied oxygen reservoir, as well as convenient portable oxygen cylinder. In addition, we also offer a full lineup of home mechanical respirators for in-home oxygen therapy and various other home therapy-related products. All of these products have earned the trust of the medical community through reliability and high performance, and we have also set up a nationwide network to provide patient support.

Oxygen concentrator
for medical use

Portable oxygen
ventilator series

[Nursing Care Business]
A Business Model That Supports the Local Community

Local nursing services and nursing services have become indispensable for Japan's aging population. Building on our close relationships with medical institutions, AWI was quick to address this need and will continue to expand this area of business as population aging accelerates.

AWI operates general care facilities such as the Asao Life Care Support Center in Kanagawa Prefecture, and the Mitajiri Life Care Support Center in Yamaguchi Prefecture. We also operate the nationwide chain of "Ai-Land" shops for the sale and rental of welfare equipment and supplies, sell shower systems for nursing care use, and offer support services for welfare facilities.

Asao Life Care Support Center

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

Shower equipment for nursing care

AWI's Energy Business - An Exciting Field Employing Liquefied Gas Technology

A rapid shift is being made to clean energy to help prevent global warming.
For half a century AWI has been making people's lives more comfortable and protecting the environment by supplying LPG, an energy source with low environmental impact. AWI has expanded this area of business to include LNG and CNG.

Natural gas supply system

LNG Receiving and Supply Systems Employing Cryogenic Technology

AWIs energy business primarily emphasizes LNG sales and supply system. Employing cryogenic technology accumulated through production and transport of industrial gases and medical gases, we are developing a variety of applications for the fast-growing LNG market. Our LNG receiving and supply systems include LNG sampling systems at terminals that receive imported LNG and various equipments for user's satellite terminals. We are focusing on developing technology to convert industrial furnaces to use LNG as fuel.
LNG tank containers are used to transport LNG from the terminal to the customer via rail or truck. Our extra-large 40-foot LNG tank container employs composite thermal insulation technology we developed. Orders for this 40-foot LNG tank container have been steadily growing since its market introduction in 1999. As of July 2007 we had sold more than 100 of these containers, giving us the No. 1 share in the Japan.

Capitalizing on Our Location to Supply Natural Gas to the Chitose Airport Industrial Complex

AWI's Chitose Plant in Chitose, Hokkaido is an important base serving the Hokkaido market, and our natural gas pipeline supply business takes full advantage of its location. The Yufutsu gas field near Tomakomai, Hokkaido, is Japan's largest natural gas field, and AWI supplies natural gas to six large-volume customers in the Chitose Airport Industrial Complex. Demand has been steadily growing, and in the coming fiscal year we expect to supply more than 10 million cubic meters of natural gas.
Another part of our clean energy business is ESCO systems, which combine cogeneration, energy-saving boilers, and other systems powered by LPG and natural gas. We have developed micro cogeneration systems of 5 to 25 kW for facilities such as hospitals, public welfare facilities, and restaurants.

40-foot LNG tank container

LNG satellite facility

"Hello Gas" Brand LPG is Well Known in Hokkaido by Consumers

AWI's LPG supply business in Hokkaido dates back to 1955. Like natural gas, LPG is also a clean source of energy widely used for residential and industrial applications and automobiles. AWI's "Hello Gas" brand LPG is well known in Hokkaido, where demand has steadily grown among local industries and the region's widely scattered communities. We are now working to expand LPG supply business to other areas throughout Japan. AWI also supplies kerosene for cold-climate water heating and space heating in the Hokkaido region. The combination of LPG and kerosene offers a "best mix" of energy sources. Our call center offers 24-hour customer support to ensure the safe use of LPG and kerosene.

MIX LPG Showrooms

AWI's MIX Showrooms offer innovative ideas for a more comfortable life through clean energy. With 10 locations in major cities throughout Hokkaido, these showrooms introduce a comfortable 21st century lifestyle with interactive displays of home appliances centering on the best energy mix for residential use.
AWI is able to propose clean energy solutions perfectly matched to customers' lifestyles, thanks to years of accumulated marketing data. The marketing database built through our direct marketing system enables us to offer advice on equipment inspection, maintenance, and switching to more energy efficient appliances, thereby generating increase in business.

Co-generation system

Developing Unique Logistics, Food Products, and ECOROCA Businesses

AWI's logistics business provides prompt, reliable supply services that support our integrated production and sales system. Food products business offers high-quality frozen foods and hum products that meet the discriminating tastes of professional chefs, and ECOROCA business features a new wood-based material for building industry's attention. In each of these areas, AWI has applied specialized technology and expertise to develop a unique type of business.

Logistics Business - A Nationwide Network of 111 Locations

As crude oil prices continue to rise, reducing transport costs has become a major issue. AWI's Logistics Department is addressing this issue while providing support for our integrated production and sales system and developing a variety of logistics services. We are especially focusing on the third-party logistics business, accepting contracts for complete logistics services in everything from imports and domestic delivery to production, sales, and support for logistics management. With 111 own locations nationwide, affiliates locations and more than 2,100 trucks, AWI boasts an extensive logistics network. We have been awarded contract by the Japan Red Cross to transport of plasma and NAT (nucleic acid amplification test) samples utilizing our unique low-temperature transport technology.

Tank truck

Food product lineup

Food Products Business Specializing in Frozen Foods and Ham and Delicatessen Items

AWI 's consolidated subsidiary Saveur SS Inc. has developed a food products business specializing in frozen foods utilizing AWI's proprietary cryogenic technology. High-quality Hokkaido ham and delicatessen items are offered under the Shunsetsu brand for the consumer market and the Saveur brand for the commercial market. Sales channels for raw ham, bacon, and processed lamb products for barbecuing have been expanded to include convenience stores, restaurant chains, and other outlets. With freshness and flavor sealed in at the ultra-low temperature of -196℃, Saveur's frozen foods are used as high-quality ingredients primarily by professional chefs.

Expanding new markets for ECOROCA Wood-plastic Composites

ECOROCA is a wood-plastic composite material made from unutilized or recycled resources. This environment-conscious material has the warm appearance of natural wood while offering advantages such as weather ability, formability, and less maintenance requirements. ECOROCA is widely used as a decking material for public spaces such as schools and welfare facilities, and in 2006 it was used for the boardwalk in a major government waterfront project on Tokyo Bay. Sales have also been increasing in the Kinki region in western Japan. ECOROCA is an exterior material with natural warmth, and markets have been expanded beyond decking to various applications such as louvers (for privacy and shade) and fencing for both residences and public facilities.

ECOROCA (waterfront boardwalk)

AWI's New Research & Development Institute Accelerate Research and Development

AWI's New Research & Development Institute along the Azusa River in Matsumoto City, Nagano Prefecture was completed in July 2007. Our development capabilities in high-growth fields such as semiconductor-related and medical-related technologies have been strengthened by integrating the core functions of our gas and chemical technologies. Innovative technologies originating from a new location, targeting new development at home and abroad are opening a new chapter in AWI's 21st century strategy.

New Research & Development Institute

CO_2 cleaning for precision machinery

The Research & Development Institute Networks with Regional Research Facilities

The Research & Development Institute along the Azusa River is in a location blessed with clean air and pure water. This area of Nagano Prefecture boasts a high concentration of companies in high-tech industries such as medicine, electronics, optics, and precision instruments. Here we have assembled highly talented teams to develop the next generation of gas and chemical technologies. In addition to networking with our 7 nationwide application technology research facilities, the Research & Development Institute will also strengthen collaboration with government, academic, and industry institutions. The focus of the research will be on high-growth fields such as electronics materials, functional resins, and pharmaceutical intermediates.

Strengthening our R&D capabilities is a core strategy of AWI's new medium-term business plan "Renovation 330." Our goal is to expand our existing businesses and create new businesses worthy of a technology-driven company.

Developing Energy-saving, High-efficiency Cryogenic Air Separation Technology

AWI has developed unique air separation systems such as the ASU large-scale cryogenic air separation plant, V1 high-purity nitrogen generator, V2 oxygen generator, V3 combined oxygen-nitrogen gas generator, and VSU system for simultaneously producing liquid oxygen and liquid nitrogen, and we supply these systems to a wide range of industries. AWI is constantly working to further develop and improve our key technologies for industrial gas processes. By developing larger, more efficient energy-saving systems, we are contributing to technological evolution.


The V3 boosts oxygen and nitrogen recovery while reducing energy consumption.

A Hydrogen Generator Using Thermo-Neutral Reforming for the Hydrogen Age

Introduced in 2006, AWI's VH hydrogen generator is already operating at two steel sheet plants. Unlike the conventional steam reforming method, it employs a thermo-neutral reforming method made possible by a catalyst developed by AWI. Remarkably compact, the VH system requires only 1/50th the reforming catalyst volume of a conventional steam reforming system. It uses AWI's own PVSA technology to recover and purify high-purity hydrogen from syngas with a high efficiency of 90% or greater. This new system is attracting attention as an onsite supply system to meet the needs of the hydrogen age.


VH Hydrogen Generator Using Thermo-Neutral Reforming

Atmospheric pressure Plasma Process - A Multipurpose Surface Treatment Technology

AWI has two proprietary surface treatment technologies: the NV nitriding process for improving metal surfaces, and the atmospheric pressure plasma process for improving the surfaces of polymer film and glass substrates. Using rare gases (argon, helium, etc.) and nitrogen as discharge gases, the atmospheric pressure plasma process can generate a glow discharge under atmospheric pressure, something previously considered impossible. This technology is already being used in a wide range of applications, such as for improving the surfaces of polymer films and glass. It is also used to produce flexible printed wiring board for folding cell phones.

Development of a PFC Greenhouse Gas Recovery and Reusing System

PFC (perfluorocarbon) gases are used for etching and cleaning processes indispensable for producing semiconductors and LCD devices. PFC gases have a greenhouse effect 10,000 times greater than carbon dioxide, and reducing PFC emissions is an important issue. AWI is addressing this issue with a PFC recovery, concentration, and reusing system that separates and concentrates PFCs from the mixture of PFC and nitrogen gases emitted during production by using a hollow-fiber membrane module. The PFCs are then purified by a unique vacuum absorption separator to a purity of 99.999% or more to enable reuse. The technology makes it possible to "reduce, reuse, and recycle" PFCs and is generating wide interest among semiconductor and LCD manufacturers.


PFC recovery and reusing system

Pioneering the Field of Fine Chemicals through Liquid-phase Air Oxidation Technology

Liquid-phase air oxidation technology is a key technology behind AWI's chemicals business. This unique method is used to efficiently synthesize carboxylic acid and other derivatives by combining oxide raw materials such as methylnaphthalene and methylthiophene with a cobalt bromine catalyst in an acetic acid solution while injecting high-pressure air. The products produced are essential for a wide range of high-tech fields, and are used as raw materials for pharmaceutical and agricultural chemical intermediates, electronics materials, and high-function resins.


Liquid-phase air oxidation system

Pursuing Practical Application of Large-diameter GaN/SiC-OI Substrates for Next-generation High-frequency Power Devices

AWI launched of the VCE high-vacuum epitaxial growth system for forming silicon or compound semiconductor film. Through joint research with Osaka Prefecture University on producing composite semiconductor substrates for electron-photon-merged devices, and we have succeeded in developing world-leading technology for the large-diameter 200-mm epitaxial growth of SiC (silicon carbide) and GaN (gallium nitride) on a Si substrate. This new technology holds great promise for creating next-generation substrates to replace silicon or gallium arsenide single crystal substrates in fields such as high-frequency communication devices, and we are actively working toward practical application.


VCE high-vacuum epitaxial growth system

FINANCIAL SECTION

Corporate Profile

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Analysis of Operating Results and Financial Condition

1 Business Overview

①Net Sales and Operating Income

Net sales increased by 28,345 million yen (7.5%) from the previous fiscal year to 404,651 million yen, primarily due to brisk gas sales by the Industrial Business Group to major users such as manufacturers of steel, LCD displays, silicon wafers and glass; increased revenues in the Chemical Business Group due to expanded gas processing volume for gas refining, as well as strong sales of electronics materials in the Group's basic chemicals and fine chemicals business.

Costs of sales rose by 23,039 million yen (8.1%) from the previous fiscal year to 307,557 million yen. Selling, general, and administrative expenses rose by 2,621 million yen (3.7%) to 73,997 million yen.

Operating income totaled 23,097 million yen, an increase of 2,684 million yen (13.2%) from the previous fiscal year, primarily due to increased net sales, higher prices for industrial gases, and an overall reduction in operating costs.

②Other Income and Expenses, and Income Before Taxes and Other Adjustments

Other income and expenses increased by 1,218 million yen from the previous year for a net other income of 31 million yen, primarily due to increased investment income by applying the equity method of accounting, increased profits on the sale of investment securities, and the posting of profits on the sale of capital investments, offsetting an increase in expenses resulting from business losses at subsidiaries and affiliates. As a result, income before taxes and other adjustments increased by 3,903 million yen (20.3%) to 23,128 million yen.

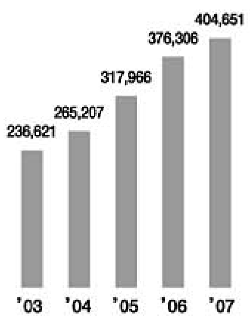
③Income Taxes and Minority Interests

Income taxes totaled 10,034 million yen, an increase of 1,562 million yen from the previous fiscal year. Minority interests totalled 1,217 million yen, an increase of 111 million yen.

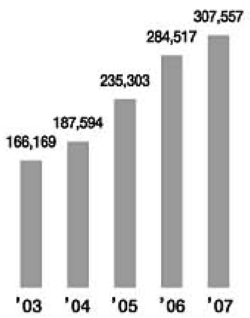
④Net Income

Net income totalled 11,877 million yen, an increase of 2,229 million yen (23.1%) from the previous fiscal year. Net income per share rose from 61.93 yen to 72.59 yen, return on equity (ROE) increased from 11.5% to 11.9%, and return on assets (ROA) increased from 7.5% to 8.0%.

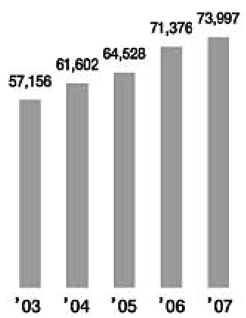
Net sales
(Millions of yen)



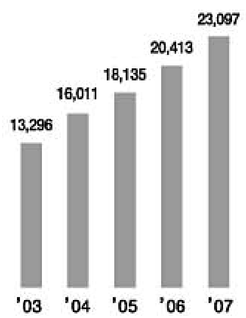
Cost of sales
(Millions of yen)



Selling, general and administrative expenses
(Millions of yen)



Operating income
(Millions of yen)



2 Financial Condition

Assets

Current assets totaled 143,784 million yen, an increase of 11,307 million yen from the end of the previous fiscal year. The increase was attributable primarily to increases in notes receivable and accounts receivable resulting from temporarily retained settlement funds due to the last day of the fiscal year being a holiday, and to an increase in cash and deposits.

Fixed assets totaled 185,444 million yen, an increase of 11,555 million yen from the previous fiscal year. The increase was attributable primarily to an increase in tangible fixed assets due to strategic capital investment, such as the construction of the Shinano Integrated R&D Center, updating of chemicals operations equipment, and a significant increase in the valuation of the company's stock holdings and newly acquired stocks.

As a result of the increases in current assets and fixed assets, total assets increased by 22,862 million yen from the previous fiscal year to 329,228 million yen.

Liabilities

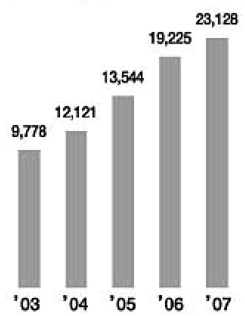
Although interest-bearing debt decreased as scheduled, due to a temporary postponement of unsettled amounts for notes payable and accounts payable as a result of the last day of the fiscal year being a holiday, total liabilities increased by 3,028 million yen from the previous fiscal year to 210,984 million yen.

Shareholders' Equity

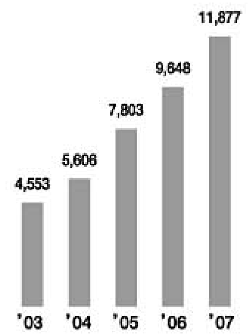
Shareholders' equity increased by 27,351 million yen from the previous fiscal year to 118,244 million yen. The increase was primarily attributable to increased net income and an increase in capital resulting from the exercise of stock acquisition rights and the exchange of stock, the distribution of surplus funds, a decrease in the difference in land revaluation, an increase in the difference in the valuation of other securities, and the inclusion of minority interests under shareholders' equity.

Shareholders' equity per share increased to 641.95 yen from 559.94 yen for the previous year, and the equity ratio rose from 29.7% to 33.2%.

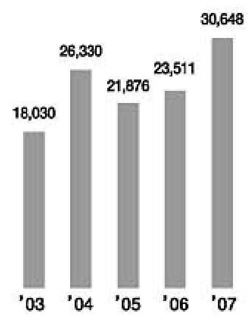
Income before income taxes and minority interests
(Millions of yen)



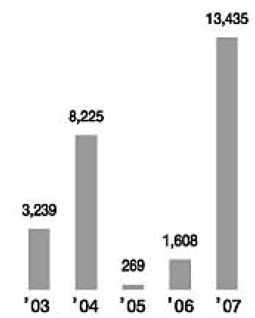
Net income
(Millions of yen)



Cash flows from operating activities
(Millions of yen)



Free cash flows
(Millions of yen)



3 | Cash Flows

Net cash flow from operating activities increased 7,137 million yen from the previous fiscal year to 30,648 million yen, primarily due to increased income before taxes and other adjustments, decreased taxes and other payments, and temporarily retained settlement funds as a result of the last day of the fiscal year being a holiday.
Cash flow from investment activities increased by 4,690 million yen from the previous year primarily due to increased revenue from the sale of securities, including stock in subsidiary companies, resulting in a net negative cash flow of 17,213 million yen.
As a result, free cash flow increased 11,827 million yen from the previous fiscal year to 13,435 million yen.
Cash flow from financing activities decreased by 10,271 million yen from the previous fiscal year primarily due to the return of borrowings, resulting in a net negative cash flow of 9,615 million yen.
The result was that the balance of cash and cash equivalents at the end of the fiscal year was 16,846 million yen, an increase of 3,970 from the previous year.

4 | Risk Factors

The primary risk factors that may affect the AWI Group in conducting its business are described below. Forward-looking statements in the following discussion are based on judgments at the close of the fiscal year ending March 31, 2006.

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.
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.
The costs and market prices of the marine products that comprise some of the frozen food ingredients sold by the AWI Group are affected by fishery catches, and profits can also 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.

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

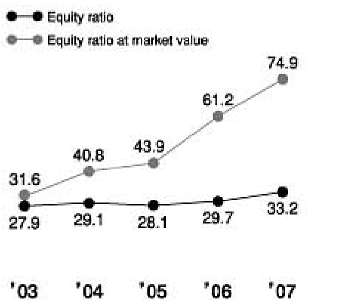
Competitors
The AWI Group's business groups all compete with a variety of other companies, and there is also potential competition risk from new companies entering each of our fields of business. As a result, the Group's operating results and financial condition could be affected if measures such as 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.

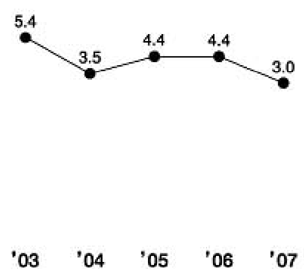
Natural Disasters
In the event that a natural disaster such as an earthquake causes serious damage to the AWI Group's production facilities and results in a significant loss of production capacity or a delay in production operations, the Group's operating results and financial condition could be affected.

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

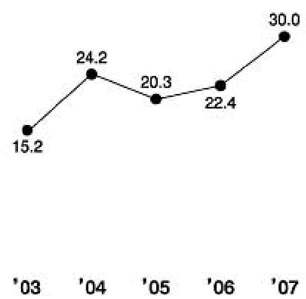
Equity ratio and equity ratio at market value
Equity ratio : Shareholders equity/total assets
Equity ratio at market value : Market capitalization/total assets



Debt repayment period
Interest bearing loans/operating cash flow



Interest coverage ratio
Operating cash flow/interest payments



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.

Consolidated Balance Sheets

AIR WATER INC. As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 3 and 7)	¥16,792	¥12,989	$142,197
Marketable securities (Note 5)	412	362	3,489
Notes and accounts receivable - trade	89,355	81,601	756,669
Inventories (Note 4)	23,637	23,988	200,161
Short-term loans receivable	4,754	4,999	40,257
Deferred tax assets (Note 9)	2,831	2,688	23,973
Other current assets	7,298	6,250	61,800
Allowance for doubtful accounts	(1,295)	(400)	(10,966)
Total current assets	143,784	132,477	1,217,580
Property, plant and equipment (Note 7):			
Land (Note 6)	36,479	36,791	308,908
Buildings and structures	68,099	67,471	576,670
Machinery and equipment	97,430	95,349	825,049
Construction in progress	7,163	4,456	60,657
Other	51,546	52,683	436,498
	260,717	256,750	2,207,782
Less accumulated depreciation	141,143	139,816	1,195,216
Total property, plant and equipment	119,574	116,934	1,012,566
Investments and other assets:			
Investment securities (Notes 5 and 7)	41,086	28,490	347,921
Investment in partnerships	1,301	1,132	11,017
Deferred tax assets (Note 9)	2,498	2,587	21,153
Deferred tax assets related to revalued land (Note 6)	–	3,291	–
Goodwill	12,142	12,669	102,820
Other assets (Note 7)	9,997	9,863	84,656
Allowance for doubtful accounts	(1,154)	(1,077)	(9,772)
Total investments and other assets	65,870	56,955	557,795
Total assets	¥329,228	¥306,366	$2,787,941

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Trade	¥69,241	¥59,389	$586,341
Construction	3,867	4,683	32,746
Short-term borrowings, including current portion of long-term debt (Note 7)	37,207	49,285	315,073
Accrued expenses	11,536	10,085	97,688
Income taxes payable (Note 9)	5,971	3,582	50,563
Directors' and statutory Auditors' bonuses	205	–	1,736
Other current liabilities	4,704	7,301	39,835
Total current liabilities	132,731	134,325	1,123,982
Long-term liabilities:			
Long-term debt due after one year (Note 7)	55,561	55,987	470,497
Deferred tax liabilities (Note 9)	10,548	5,611	89,322
Deferred tax liabilities related to revalued land (Note 6)	998	280	8,451
Employees' severance and pension benefits (Note 19)	7,154	7,635	60,581
Directors and statutory auditors' retirement benefits	2,690	1,913	22,779
Other long-term liabilities	1,302	2,205	11,025
Total long-term liabilities	78,253	73,631	662,655
Contingent liabilities (Note 12)			
Total liabilities	210,984	207,956	1,786,637
MINORITY INTERESTS	–	7,516	–
SHAREHOLDERS' EQUITY:			
Common stock			
Authorized - 480,000,000 shares			
Issued - 162,524,257 shares in 2006	–	16,664	–
Capital surplus	–	15,144	–
Retained earnings	–	58,830	–
Land revaluation difference	–	(4,638)	–
Net unrealized holding gains on securities	–	5,624	–
Foreign currency translation adjustments	–	(408)	–
Treasury stock, at cost	–	(322)	–
2006 - 465,719 shares			
Total shareholders' equity	–	90,894	–
Total liabilities, minority interests and shareholders' equity	–	¥306,366	–
NET ASSETS (Note10)			
Owners' equity:			
Common stock			
Authorized - 480,000,000 shares			
Issued - 170,688,156 shares in 2007	19,874	–	168,295
Capital surplus	19,631	–	166,238
Retained earnings (Note 21)	67,119	–	568,372
Treasury stock, at cost	(224)	–	(1,897)
2007- 210,014 shares			
Valuation and translation adjustments:			
Net unrealized holding gains on securities	11,643	–	98,594
Deferred gains on hedges	38	–	322
Land revaluation difference (Note 6)	(8,631)	–	(73,088)
Foreign currency translation adjustments	(12)	–	(102)
Total valuation and translation adjustments	3,038	–	25,726
Minority interests	8,806	–	74,570
Total net assets	118,244	–	1,001,304
Total liabilities and net assets	¥329,228	–	$2,787,941

Consolidated Statements of Income

AIR WATER INC. Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales	¥404,651	¥376,306	$3,426,632
Cost of sales	307,557	284,517	2,604,429
Selling, general and administrative expenses	73,997	71,376	626,615
Operating income	23,097	20,413	195,588
Other income (expenses):			
Interest and dividend income	444	351	3,760
Interest expense	(1,018)	(1,044)	(8,621)
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,342	1,498	19,832
Gain on sale of property, plant and equipment	149	123	1,262
Gain on sale of investment securities	1,473	348	12,474
Gain on sale of investment in partnerships	872	–	7,384
Loss on sale and disposal of property, plant and equipment	(976)	(674)	(8,265)
Loss on impairment of fixed assets (Note 13)	(1,574)	(1,247)	(13,329)
Losses on sale of investments (Note 14)	(3)	(14)	(25)
Losses on devaluation of investments (Note 15)	(171)	(95)	(1,448)
Additional early retirement benefits	(39)	(17)	(330)
Loss on liquidation of affiliated company (Note 16)	(1,413)	–	(11,965)
Loss on disposal of inventories	–	(204)	–
Other - net	(55)	(213)	(466)
Income before income taxes and minority interests	23,128	19,225	195,851
Income taxes (Note 9):			
Current	9,192	6,655	77,839
Deferred	842	1,816	7,130
Income before minority interests	13,094	10,754	110,882
Minority interests	(1,217)	(1,106)	(10,306)
Net income	¥11,877	¥9,648	$100,576

	Yen		U.S. dollars (Note 1)
	2007	2006	2007
Per share of common stock:			
Net income - basic	¥72.59	¥61.93	$0.61
Net income - diluted	64.98	54.17	0.55
Cash dividends applicable to the year	20.00	17.00	0.17

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

Consolidated Statements of Shareholders' Equity

AIR WATER INC. Year ended March 31, 2006

		Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2005	151,700,942	¥15,514	¥12,024	¥52,185	¥(5,094)	¥2,593	¥(237)	¥(201)
Net income	–	–	–	9,648	–	–	–	–
Stock swap	8,239,047	–	1,927	–	–	–	–	–
Exercise of stock acquisition rights	2,584,268	1,150	1,150	–	–	–	–	–
Surplus from sale of treasury stock	–	–	43	–	–	–	–	–
Foreign currency translation adjustments	–	–	–	–	–	–	(171)	–
Change in treasury stock	–	–	–	–	–	–	–	(121)
Decrease in retained earnings due to newly consolidated subsidiaries	–	–	–	(65)	–	–	–	–
Decrease resulting from merger	–	–	–	(87)	–	–	–	–
Cash dividends paid	–	–	–	(2,270)	–	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(125)	–	–	–	–
Land revaluation difference	–	–	–	(456)	456	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	3,031	–	–
Balance as of March 31, 2006	162,524,257	¥16,664	¥15,144	¥58,830	¥(4,638)	¥5,624	¥(408)	¥(322)

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

Consolidated Statements of Changes in Net Assets

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 of items during the period					
Exercise of stock acquisition rights	3,210	3,211			6,421
Stock swap		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 of items other than owners' equity					
Total changes of 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

Thousands of U.S. dollars (Note 1)

	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Shareholders' equity at March 31, 2006 as previously reported	$141,113	$128,242	$498,179	($2,727)	$764,807
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	$141,113	$128,242	$498,179	($2,727)	$764,807
Changes of items during the period					
Exercise of stock acquisition rights	27,182	27,191			54,373
Stock swap		10,695		2,913	13,608
Dividends of surplus			(26,175)		(26,175)
Bonuses to directors and statutory auditors			(1,270)		(1,270)
Land revaluation difference			(76)		(76)
Net income			100,576		100,576
Decrease in retained earnings due to newly consolidated subsidiaries			(3,633)		(3,633)
Increase resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries			771		771
Purchase of treasury stock				(2,312)	(2,312)
Disposal of treasury stock		110		229	339
Net changes of items other than owners' equity					
Total changes of items during the period	27,182	37,996	70,193	830	136,201
Balance as of March 31, 2007	$168,295	$166,238	$568,372	($1,897)	$901,008

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 of items during the period							
Exercise of stock acquisition rights							6,421
Stock swap							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 of items other than owners' equity	6,019	38	(3,993)	396	2,460	1,290	3,750
Total changes of 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

Thousands of U.S. dollars (Note 1)

	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	$47,625	$–	($39,275)	($3,455)	$4,895	$–	$769,700
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006						63,645	
Net assets at April 1, 2006	$47,625	$–	($39,275)	($3,455)	$4,895	$63,645	$833,347
Changes of items during the period							
Exercise of stock acquisition rights							54,373
Stock swap							13,608
Dividends of surplus							(26,175)
Bonuses to directors and statutory auditors							(1,270)
Land revaluation difference							(76)
Net income							100,576
Decrease in retained earnings due to newly consolidated subsidiaries							(3,633)
Increase resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries							771
Purchase of treasury stock							(2,312)
Disposal of treasury stock							339
Net changes of items other than owners' equity	50,969	322	(33,813)	3,353	20,831	10,925	31,756
Total changes of items during the period	50,969	322	(33,813)	3,353	20,831	10,925	167,957
Balance as of March 31, 2007	$98,594	$322	($73,088)	($102)	$25,726	$74,570	$1,001,3

Consolidated Statements of Cash Flows

AIR WATER INC. Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interest	¥23,128	¥19,225	$195,851
Depreciation	12,602	13,267	106,715
Loss on impairment of fixed assets	1,574	1,247	13,329
Amortization of goodwill	1,291	–	10,932
Amortization of cost in excess of net assets of subsidiaries	–	508	–
Increase (decrease) in allowance for doubtful accounts	970	(602)	8,214
Increase (decrease) in retirement benefits	(218)	(214)	(1,846)
Interest and dividend income	(444)	(351)	(3,760)
Interest expense	1,018	1,044	8,621
Equity in earnings of non-consolidated subsidiaries and affiliates	(2,342)	(1,498)	(19,832)
Gain on sale of property, plant and equipment	(149)	(123)	(1,262)
Loss on sale and disposal of property, plant and equipment	976	674	8,265
Gain on sale of investment securities	(1,473)	(348)	(12,474)
Losses on sale of investments	3	14	25
Losses on devaluation of investments	253	95	2,142
Gain on sale of capital	(872)	–	(7,384)
Increase (decrease) in notes and accounts receivable	(5,740)	(5,955)	(48,607)
(Increase) decrease in inventories	(810)	3,261	(6,859)
Increase (decrese) in notes and accounts payable	9,615	933	81,421
Directors' and statutory auditors' bonuses	(160)	(137)	(1,355)
Other - net	(1,461)	1,121	(12,371)
Subtotal	37,761	32,161	319,765
Interest and dividends received	868	439	7,350
Interest paid	(1,004)	(1,049)	(8,502)
Income taxes paid	(6,977)	(8,040)	(59,082)
Net cash provided by operating activities	¥30,648	¥23,511	$259,531
Cash flows from investing activities:			
Acquisitions of property, plant and equipment	(19,239)	(21,124)	(162,918)
Proceeds from sales of property, plant and equipment	2,384	3,218	20,188
Acquisitions of intangible assets	(2,026)	(1,381)	(17,156)
Purchase of investment securities	(3,049)	(1,522)	(25,819)
Proceeds from sales of investment securities	2,705	560	22,906
Acquisitions of consolidated subsidiaries, net of cash acquired (Note 3)	–	(1,280)	–
Proceeds from consolidated subsidiaries, net of cash acquired (Note 3)	1,198	–	10,145
Proceeds from sale of capital	896	–	7,587
Disbursement of loans receivable	(392)	(1,815)	(3,320)
Collection of loans receivable	168	138	1,423
Other - net	142	1,303	1,202
Net cash used in investing activities	¥(17,213)	¥(21,903)	$(145,762)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(5,071)	9,901	(42,942)
Proceeds from long-term debt	20,279	12,447	171,725
Repayments of long-term debt	(21,557)	(18,152)	(182,547)
Proceeds from issuance of bonds	200	100	1,694
Repayments of bonds	(399)	(1,120)	(3,379)
Purchase of treasury stock	(273)	(124)	(2,312)
Proceeds from sales of treasury stock	40	183	339
Proceeds from expenses of minority interests	441	–	3,734
Cash dividends paid	(3,091)	(2,270)	(26,175)
Cash dividends paid to minority interests	(184)	(309)	(1,558)
Net cash provided by (used in) financing activities	¥(9,615)	¥656	$(81,421)
Effect of exchange rate changes on cash and cash equivalents	0	39	0
Net increase (decrease) in cash and cash equivalents	3,820	2,303	32,348
Cash and cash equivalents at beginning of year	12,876	10,357	109,035
Net increase in cash and cash equivalents by merger	10	89	85
Increase in cash and cash equivalents due to newly consolidated subsidiaries	140	127	1,186
Cash and cash equivalents at end of year (Note 3)	¥16,846	¥12,876	$142,654

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

Notes to Consolidated Financial Statements

AIR WATER INC. Year ended March 31, 2007 and 2006

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 Securities 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 of 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 and the inclusion of consolidated statements of shareholders' equity for 2006) 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 Securities 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Accounting change, is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.
Also, as discussed in Accounting change, the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.
The translation of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.09 to U.S. $1.00. The convenience 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 existence of certain 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 of the investees, are accounted for using the equity method and, accordingly, stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.
The number of consolidated subsidiaries was 63 for the year ended March 31, 2007 (61 for the year ended March 31, 2006) and the number of companies accounted for using the equity method was 6 for the year ended March 31, 2007 (5 for the year ended March 31, 2006).
For the purposes of preparing the consolidated financial statements, all significant inter-company 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 subsidiaries.

Accounting changes

＜Fiscal year 2005＞

(Accounting Standard for Impairment of Fixed Assets)
For the year ended March 31, 2006, the Companies adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6) issued by the Accounting Standards Board of Japan on October 31, 2003.
As a result, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥1,247 million (US$10,615 thousand) for the year ended March 31, 2006.

＜Fiscal year 2006＞

(Accounting Standard for Directors' Bonuses)
Effective as of the consolidated accounting period ended March 31, 2007, the Company and its domestic subsidiaries has adopted the "Corporate Accounting Standard No. 4 regarding directors' bonuses", issued on November 29, 2005. As a result, the impact on operating income, income before income taxes and extraordinary items, and income before income taxes and minority interests was ¥205 million ($1,736 thousand). The effect on segment information is described in Note 11.

(Accounting Standard for Presentation of Net Assets in the Balance Sheet)
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").
The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.
Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the long-term liabilities and the shareholders' equity sections, respectively.
The adoption of the New Accounting Standards had no impacts on

the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥109,400 million ($926,412 thousand) would have been presented.
(Accounting Standard for Statement of Changes in Net Assets)
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").
The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

(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.

(2) 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 value.
Unrealized gains and unrealized 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 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 market value of available-for-sale securities declines significantly and is not expected to recover, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline.
If the fair market value of available-for-sale securities is not readily available, such 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. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(3) Inventories
Inventories are principally stated at average cost.

(4) 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 gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.
However, in cases where forward foreign exchange contracts are used as hedges and 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 gains or losses on the forward foreign exchange contract are recognized.

(5) Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives in accordance with income tax laws.
Also, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

(6) Amortization of goodwill
Goodwill is amortized using the straight-line method within 20 years. Some of goodwill is charged or credited to income directly when incurred.

(7) Administrative software costs
Administrative software costs are recorded principally in other assets and amortized using the straight-line method over an estimated useful life of five years.

(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 has been individually estimated.

(9) Directors' and statutory Auditors' bonuses
Directors' and statutory Auditors' bonuses are provided for the expected payment of directors' and statutory auditors' bonuses 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, 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 the plan assets at the balance sheet dates. Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service lives 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 lives commencing with the period incurred.
(b) Directors and statutory Auditors: The Company and certain consolidated subsidiaries provide for the liability for directors' and statutory auditors' retirement benefits based on the Companies' regulations decided internally in the estimated amount (including the present value of estimated amounts to be paid as pension benefits) to be paid if all directors and statutory auditors retired at the balance sheet date.

(11) Research and development expenses
Research and development expenses, which were ¥2,755 million ($23,330 thousand) and ¥2,615 million for the year ended March 31, 2007 and 2006, 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 rate as of the balance sheet date.

(14) Income taxes
The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carry forwards 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) Reclassifications
Certain prior period amounts have been reclassified to conform to the 2007 presentation. These changes had no impact on previously reported results of operations or net assets.

(16) 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.

(17) 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 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, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash on hand and in banks on the consolidated balance sheets	¥16,792	¥12,989	$142,197
Time deposits with maturities exceeding 3 months	(357)	(475)	(3,023)
Free financial funds	411	362	3,480
Cash and cash equivalents on the consolidated statements of cash flows	¥16,846	¥12,876	$142,654

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets	¥–	¥14,472	$–
Non-current assets	–	6,249	–
Current liabilities	–	(10,321)	–
Long-term liabilities	–	(3,664)	–
Cost in excess of net assets of subsidiaries	–	53	–
Minority interests	–	(2,839)	–
The Companies' share before additional acquisition of stocks	–	(39)	–
Acquisition cost	–	3,911	–
Purchase amount of stocks	–	1,879	–
Cash and cash equivalents of acquired companies	–	(599)	–
Net expenditure	¥–	¥1,280	$–

The assets and liabilities of excluded subsidiaries are as follows:

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Current assets	¥9,105	–	$77,102
Non-current assets	1,369	–	11,593
Total assets	10,474	–	88,695
Current liabilities	8,425	–	71,344
Long-term liabilities	422	–	3,573
Total liabilities	¥8,847	–	$74,917

Significant noncash transactions for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Issuance of new stock by execution of stock acquisition rights:			
Credited to common stock	¥3,210	–	$27,183
Credited to capital surplus	3,211	–	27,191
Decrease of Zero coupon convertible due 2009	¥6,421	–	$54,374

4 Inventories

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Finished goods and merchandise	¥13,093	¥14,869	$110,873
Raw materials	2,449	2,176	20,738
Work in process	4,272	3,546	36,176
Contract work in progress	1,687	1,184	14,286
Supplies	2,136	2,213	18,088
	¥23,637	¥23,988	$200,161

5 Securities

(1) Available-for-sale securities with available fair market values at March 31, 2007 and 2006 are 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)
	2007			2006			2007		
Securities with book values exceeding acquisition costs:									
Stocks	¥8,901	¥29,245	¥20,344	¥6,050	¥16,293	¥10,243	$75,375	$247,650	$172,275
Securities with book values not exceeding acquisition costs:									
Stocks	152	132	(20)	208	166	(42)	1,287	1,118	(169)
	¥9,053	¥29,377	¥20,324	¥6,258	¥16,459	¥10,201	$76,662	$248,768	$172,106

(2) The following table summarizes book values of securities with no available fair values as of March 31, 2007 and 2006:
(a) Shares of subsidiaries and affiliates:

	Book value		
	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Non-listed shares	¥9,669	¥8,038	$81,878

(b) Available-for-sale securities

	Book value		
	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Non-listed shares	¥2,029	¥3,983	$17,182
Other	423	371	3,582
	¥2,452	¥4,354	$20,764

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, and the decrease in value, net of income tax effect, was directory charged to net assets.

The following table summarizes the book value and fair value of the revalued land as of March 31, 2007:

	Millions of yen			Thousands of U.S. dollars
	Book value after revaluation	Fair value	Difference	Difference
Revalued land	¥23,873	¥20,945	¥2,928	$24,795

7 Short-term borrowings and long-term debt

The weighted average interest rates of short-term borrowings as of March 31, 2007 and 2006, were 1.20% and 0.84%, respectively.
Long-term debt as of March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans from banks and insurance companies with interest rates ranging from 0.68% to 6.03% maturing through 2023	¥57,158	¥58,119	$484,020
Zero coupon convertible bonds due 2009	11,279	17,700	95,512
0.42% unsecured bonds due 2008	280	560	2,371
0.78% unsecured bonds due 2007	100	100	847
1.36% unsecured bonds due 2010	100	–	847
1.27% unsecured bonds due 2010	100	–	847
0.20% unsecured bonds due 2008	100	100	847
0.82% unsecured bonds due 2009	100	140	847
1.24% unsecured bonds due 2011	67	83	567
0.51% unsecured bonds due 2008	72	136	609
0.62% unsecured bonds due 2008	100	100	847
0.97% unsecured bonds due 2010	100	100	847
	69,556	77,138	589,008
Less amount due within one year	13,995	21,151	118,511
	¥55,561	¥55,987	$470,497

The aggregate annual maturities of long-term debt as of March 31, 2007 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥13,995	$118,511
2009	14,689	124,388
2010	17,382	147,193
2011	9,836	83,292
2012	3,495	29,596
2013 and thereafter	10,159	86,028

As of March 31, 2007 the following assets were pledged as collateral for short-term bank loans of ¥448 million (US$3,794 thousand), and long-term debt of ¥6,482 million (US$54,890 thousand):

	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	¥5	$42
Land	5,913	50,072
Buildings and structures	4,477	37,912
Machinery, equipment and vehicles	1,212	10,263
Investments securities	1	9
Other (property, plant and equipment)	42	356
Other assets	86	728
	¥11,736	$99,382

8 Derivative financial instruments and hedging transactions

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

Hedging instruments:	Hedging items:
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, 2007 and 2006.

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, 2007 and 2006:

	2007	2006
Statutory tax rate	40.6%	40.6%
Non-deductible expenses	1.9	2.5
Equity in earnings of non-consolidated subsidiaries and affiliates	(4.1)	(3.2)
Amortization of goodwill (Include goodwill impairment)	2.9	–
Amortization of cost in excess of net assets of subsidiaries	–	1.1
Per capita inhabitant tax	0.8	1.0
Loss of subsidiaries	–	1.5
Deductions of net operating losses carried forward for tax purposes	–	(1.3)
Other	1.3	1.9
Effective tax rate	43.4%	44.1%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Retirement benefits	¥3,241	¥4,157	$27,445
Excess bonuses accrued	1,613	1,575	13,659
Devaluation of investment securities	1,095	1,312	9,273
Allowance for doubtful accounts	786	453	6,656
Goodwill impairment	661	–	5,597
Accrued enterprise taxes	507	–	4,293
Net operating losses carried forward for tax purposes	491	3,979	4,158
Other	1,770	2,852	14,989
Total deferred tax assets	10,164	14,328	86,070
Valuation allowance	(880)	(4,378)	(7,452)
Net deferred tax assets	¥9,284	¥9,950	$78,618
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥(8,248)	¥(4,155)	$(69,845)
Retained earnings appropriated for tax allowable reserves	(4,356)	(4,391)	(36,888)
Other	(1,899)	(1,740)	(16,081)
Total deferred tax liabilities	¥(14,503)	¥(10,286)	$(122,814)
Net deferred tax assets (Net deferred tax liabilities)	¥(5,219)	¥(336)	$(44,196)

10 Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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.

Under the Law, 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.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all 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

The Companies are primarily engaged in the manufacture and sale of products in six categories: Industrial business; Medical business; Chemical business; Energy business; Consumer products; and Other business.

Information by industry segment for the years ended March 31, 2007 and 2006 is summarized as follows:

Millions of yen

For 2007	Industrial business	Medical business	Chemical business	Energy business	Consumer products	Other business	Elimination and corporate	Consolidated
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 expenditures	¥12,723	¥904	¥1,649	¥3,820	¥239	¥1,132	¥–	¥20,467

Millions of yen

For 2006	Industrial business	Medical business	Chemical business	Energy business	Consumer products	Other business	Elimination and corporate	Consolidated
Net sales:								
Customers	¥169,172	¥42,591	¥66,213	¥46,733	¥29,399	¥22,198	¥–	¥376,306
Inter-segment	6,124	78	1,049	538	1,025	12,499	(21,313)	-
Total	175,296	42,669	67,262	47,271	30,424	34,697	(21,313)	376,306
Costs and expenses	161,208	40,655	64,943	45,640	30,818	33,942	(21,313)	355,893
Operating income (loss)	¥14,088	¥2,014	¥2,319	¥1,631	¥(394)	¥755	¥–	¥20,413
Assets	¥138,716	¥34,733	¥33,803	¥27,568	¥13,147	¥36,454	¥21,945	¥306,366
Depreciation	¥ 6,415	¥1,245	¥834	¥2,229	¥665	¥1,879	¥–	¥13,267
Loss on impairment of fixed assets	¥116	¥–	¥–	¥–	¥1,015	¥116	¥–	¥1,247
Capital expenditures	¥14,620	¥1,786	¥1,899	¥2,926	¥387	¥2,059	¥–	¥23,677

Thousands of U.S. dollars

For 2007	Industrial business	Medical business	Chemical business	Energy business	Consumer products	Other business	Elimination and corporate	Consolidated
Net sales:								
Customers	$1,567,305	$418,706	$666,238	$397,925	$181,031	$195,427	$–	$3,426,632
Inter-segment	48,988	483	1,506	5,268	4,962	116,759	(177,966)	–
Total	1,616,293	419,189	667,744	403,193	185,993	312,186	(177,966)	3,426,632
Costs and expenses	1,481,472	406,292	648,742	390,482	184,376	297,646	(177,966)	3,231,044
Operating income	$134,821	$12,897	$19,002	$12,711	$1,617	$14,540	$–	$195,588
Assets	$1,219,299	$332,052	$367,423	$251,511	$52,104	$204,920	$360,632	$2,787,941
Depreciation	$54,408	$10,009	$8,917	$18,062	$3,032	$12,287	$–	$106,715
Loss on impairment of fixed assets	$8,917	$–	$–	$3,540	$872	$–	$–	$13,329
Capital expenditures	$107,740	$7,655	$13,964	$32,348	$2,024	$9,586	$–	$173,317

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, 2007 and 2006 were ¥55,600 million (US$470,827 thousand) and ¥54,180 million, respectively.

As shown in Accounting change, effective as of the consolidated accounting period ended March 31, 2007, the Company and its domestic subsidiaries has adopted the "Corporate Accounting Standard No. 4 regarding directors' bonuses", issued on November 29, 2005. As a result, operating expenses increased by ¥131 million

(US$ 1,110 thousand) in Industrial business, ¥16 million (US$135 thousand) in Medical business, ¥26 million (US$221 thousand) in Chemical business, ¥16 million (US$135 thousand) in Energy business, ¥3 million (US$25 thousand) in Consumer products and ¥13 million (US$110 thousand) in Other business. Operating income decreased by the same amounts accordingly.

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, 2007 and 2006 accounted for less than 10% of consolidated net sales.

12 Contingent liabilities

As of March 31, 2007, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥841 million ($7,122 thousand) and notes receivable endorsed in the amount of ¥8 million ($68 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 ¥1,093 million ($9,256 thousand).

13 Loss on impairment of fixed assets

At the year ended March 31, 2007, the Company reported the following losses on impairment fixed assets:

Use	Type of assets	Place	Millions of yen	Thousands of U.S. dollars
Idle assets	Land	Tsurumi-ku Osaka-shi, etc.	¥340	$2,879
Idle assets	Buildings and others	Yamagata-shi Yamagata Prefecture	¥236	$1,999
–	Goodwill	–	¥998	$8,451

The Companies grouped their fixed assets based on the relationship in terms of operating activities, and idle assets are considered individually.
As for the idle assets, the impairment loss was recognized because the recoverable amount was bellow the book value and there were no future use prospects.
The recoverable amounts of the assets are the greater of the net selling price or the present value of the expected cash flows from on-going utilization and the subsequent disposal of the assets based on a discount rate of 7%.
When goodwill was not able to earn the profit that the Companies estimated at first, the Companies reduced the book value of the goodwill to the Companies recoverable amounts.

14 Losses on sale of investments

Losses on sale of investments for the year ended March 31, 2007 and 2006 are shown below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loss on sale of investment securities	¥0	¥14	$0
Loss on sale of golf membership rights	3	–	25
	¥3	¥14	$25

15 Losses on devaluation of investments

Losses on devaluation of investments for the year ended March 31, 2007 and 2006 are shown below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loss on devaluation of investment securities	¥70	¥72	$593
Loss on devaluation of golf membership rights	101	23	855
	¥171	¥95	$1,448

16 Loss on liquidation of affiliated company

Loss on the liquidation of an affiliated company for the year ended March 31, 2007 is shown below:

	Millions of yen	Thousands of U.S. dollars
Losses on devaluation of stocks of affiliated company	¥81	$686
Doubtful debt account	1,070	9,061
Other allowance reserve	¥262	$2,218
	¥1,413	$11,965

17 Finance leases

Information relating to non-capitalized finance leases of the Companies, as lessee, as of March 31, 2007 and 2006, and for the accounting periods then ended is shown below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
(1) Future minimum lease payments, including financing charges:			
Due within one year	¥6,188	¥5,024	$52,401
Due after one year	30,189	29,744	255,644
	¥36,377	¥34,768	$308,045

Allowance for impairment loss on leased property of ¥102 million ($864 thousand) as of March 31, 2007 is not included in obligations under finance leases.

(2) Original lease obligation, payments made, remaining balance and accumulated impairment loss:			
Original lease obligation	¥50,658	¥44,873	$428,978
Payments made	17,299	11,674	146,490
Accumulated impairment loss	111	1,095	940
Remaining balance	¥33,248	¥32,104	$281,548
(3) Lease payments for the period	¥6,075	¥5,377	$51,444

If the above finance leases had been capitalized, depreciation of ¥5,320 million (US$45,050 thousand), reversal of allowance for impairment loss on leased property of ¥914 million (US$7,740 thousand), and interest of ¥1,080 million (US$9,146 thousand) would have been recorded for the year ended March 31, 2007.

Information relating to finance leases of the Companies, as lessor, as of March 31, 2007 and 2006, and for the accounting periods then ended is shown below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
(1) Future minimum lease receipts, including financing charges:			
Due within one year	¥625	¥562	$5,293
Due after one year	1,599	1,494	13,540
	¥2,224	¥2,056	$18,833
(2) Acquisition cost, accumulated depreciation and book value of leased properties:			
Acquisition cost	¥2,952	¥2,949	$24,998
Accumulated depreciation	1,601	1,615	13,558
Book value	¥1,351	¥1,334	$11,440
(3) Lease receipts	¥624	¥545	$5,284
(4) Depreciation	¥409	¥378	$3,463

18 Operating leases

Obligations under non-cancelable operating leases as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥289	¥224	$2,447
Due after one year	2,095	2,499	17,741
	¥2,384	¥2,723	$20,188

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, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥27,887	¥27,585	$236,150
Prepaid pension costs	2,437	1,890	20,637
Unrecognized prior service costs	2,673	3,194	22,635
Unrecognized actuarial differences	(7,183)	(8,100)	(60,826)
Less fair value of pension assets	(18,660)	(16,934)	(158,015)
Liability for severance and pension benefits	¥7,154	¥7,635	$60,581

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs - benefits earned during the year	¥1,339	¥1,421	$11,339
Interest costs on projected benefit obligation	508	546	4,302
Expected return on plan assets	(328)	(383)	(2,778)
Amortization of actuarial differences	954	1,098	8,079
Amortization of prior service costs	(303)	(307)	(2,566)
Severance and retirement benefit expenses	¥2,170	¥2,375	$18,376

The discount rate and the rate of expected return on plan assets used by the Companies are approximately 2.5% (2.5% in 2006) and mainly 2.5% (2.5% in 2006), 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 are principally recognized in the income statement using the straight-line method over approximately 12 years (12 years in 2006). Prior service cost is recognized in the income statement using the straight-line method over 12 years.

20 Business Combinations

Transactions under common control in the year ended March 31, 2007

Ⅰ. Air Water Inc. formed a merger with Air Water Chemical Inc. and Air Water Bellpearl Inc.

(1) Combined entity's name and business

(i) Name and business of combined entity
Air Water Chemical Inc. and Air Water Bellpearl Inc.
Chemicals manufacturing and high polymer

(ii) Form of reorganization
Merger

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

(iv) Outline and purpose of the transaction
In order to establish a more tightly integrated management structure, to promote the combination and sharing of management resources and to conduct chemical business with greater operational speed and efficiency, Air Water Inc. formed a merger with Air Water Chemical Inc. and Air Water Bellpearl Inc. on April 1, 2006.

(2) Accounting method

The Companies applied the following accounting treatments stipulated by the accounting standard 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, Paragraph 1-Transactions under common control."

Ⅱ. Air Water Inc. and Air Water Emoto Inc. conducted an exchange of shares

(1) Combined entity's name and busine

(i) Name and business of combined entity
Air Water Emoto Inc.
Prefabricated bath business

(ii) Form of reorganization
Exchange of shares

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

(iv) Outline and purpose of the transaction
In order to create a framework to swiftly and flexibly restructure housing and domestic fittings and appliance operations in the Air Water Group and thereby maximize corporate value, Air Water Inc. and Air Water Emoto Inc. conducted an exchange of shares on August 10, 2006.

(2) Accounting method

The Companies applied the following accounting treatments stipulated by the accounting standard for business combinations to the consolidated and nonconsolidated financial statements: "Chapter 3-Accounting Standard for Business Combinations, Article 4-Accounting treatment for the transactions under common control," Paragraph 2-Transactions with minority shareholders."

(3) Additional acquisition of subsidiary's shares

(i) Acquisition cost
Air Water Emoto Inc.
Prefabricated bath business

Common shares	¥1,608 million (US$13,617 thousand)
Expenses for acquiring the common shares	¥43 million (US$364 thousand)
Acquisition cost	¥1,651 million (US$13,981 thousand)

(ii) Ratio of share exchange, its basis for determination, the number of shares delivered and the values
(a) Type of shares and share exchange ratio
Common shares of Air Water Inc. 1; Air Water Emoto Inc. 0.1
(b) Basis for determination of share exchange ratio
Nikko Cordial Securities Inc. calculated the exchange ratio for Air Water Inc. and Air Water Emoto Inc. share after making a comprehensive appraisal using market price and discounted cash flow methods.
(c) Shares delivered and values
1,399,300 shares (949,300 new ordinary shares and 450,000 shares of treasury stock) at ¥1,651 million (US$13,981 thousand)

(iii) Goodwill, reason for recognizing goodwill, amortization method and amortization term
(a) Amount of goodwill
¥330 million (US$2,794 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 Emoto Inc. and the amount of minority interests decreased as goodwill.
(c) Method and term to amortize goodwill
Straight-line method over 5 years

21 Subsequent event

1 Pre-maturity redemption of the Zero Coupon Convertible Bond due 2009

The right of the call option articles of the Zero Coupon Convertible Bond due 2009 was generated on May 15, 2007, and in Board of Directors' meeting on May 16, 2007, the pre-maturity redemption of it was decided.

Summary of redemption

1. Name of the Bond:	Air Water Inc. Zero Coupon Convertible Bond due 2009
2. Date of issue:	Nov 1, 2004 (London Time)
3. Term of redemption in the past:	Oct 30, 2009 (London Time)
4. Issue total:	¥20,000 million
5. Principal amount of the Bond outstanding as of 15th May:	¥11,279 million ($95,512 thousand)
6. Redemption Price:	At their principal amount
7. Date of redemption:	Jul 2, 2007 (London Time)
8. The issue stocks:	Common stock
9. Issue price:	¥890
10. The final day of conversion claim:	Jun 27, 2007 (London Time)

2 Stock swap agreement with Air Water Emoto

On May 16, 2007, the Board of Directors of the Company and Air Water Safety Service Inc. (AWB), a member company of the Air Water group resolved at meetings to make AWB a wholly-owned subsidiary of the Company through a stock swap and both parties signed a Stock Swap Agreement to that effect.
The stock swap is scheduled for August 1, 2007.
The stock swap ratio is follows.

	The Company	Air Water Safety Service Inc. (Subsidiary Company)
Stock Swap Ratio	1.0	0.44

1)For 1 share of AWB will be swapped for 0.44 share of the Company.
2)The Company will issue 1,843,888 new ordinary shares and 200,000 treasury stock for the swap with the AWB shareholders.

3 Appropriation of retained earnings

The Company's Board of Directors' meeting, which was held on May 16, 2007, resolved the following year-end appropriation of nonconsolidated retained earnings. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are resolved by the Company's Board of Directors.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥11.00 = US$0.09 per share)	¥1,875	$15,878

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, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, 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, 2007 and 2006, 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:

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, AIR WATER INC. and consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.
(2) As discussed in Note 21 to the consolidated financial statements, in the Board of Directors' meeting on May 16, 2007, the pre-maturity redemption of the Zero Coupon Convertible Bond due 2009 was decided.
(3) As discussed in Note 21 to the consolidated financial statements, on May 16, 2007, AIR WATER INC. resolved to make AIR WATER SAFETY SERVICE INC. a wholly-owned subsidiary of AIR WATER INC. through a stock swap, and both parties signed a stock swap agreement to that effect.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

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.

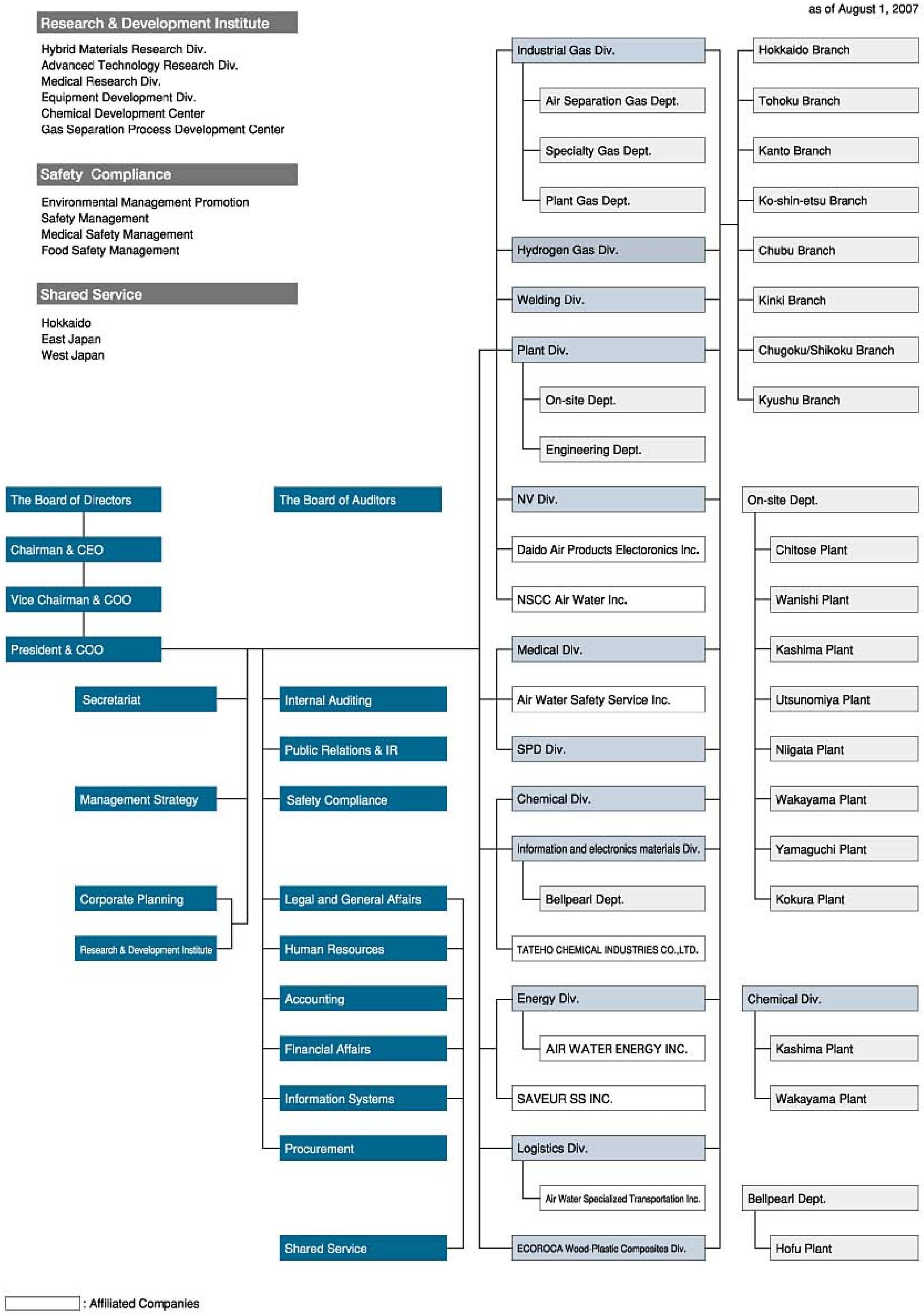
Kyodo Oxygen Co., Ltd.

- 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.

- 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.
- Apr.2000 **Air Water Inc. is established.**
- Feb.2001 A three-year medium-term business plan is complied.
- 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.

Organizational Chart

as of August 1, 2007



Corporate Data

Corporate Outline (As of March 31, 2007)

Company Name	AIR WATER INC.
Head Office	20-16, Higashi-shinsaibashi 1-chome, Chuo-ku,
	Osaka 542-0083, Japan
Home Office	TEL (81) 6-6252-5411 FAX (81) 6-6252-3965
	2, Kita 3-jo, Nishi 1-chome, Chuo-ku,
Established	Sapporo 060-0003, Japan
Paid-In Capital	September 24, 1929
Number of Employees	¥25,513 million
	Number of Employees 6,489 (Consolidated)

Shareholder Information (As of March 31, 2007)

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)

Board of Directors (As of June 28, 2006)

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/Masahiro Kanazawa/Akira Fujita/Noboru Sumiya
Corporate Managing Directors	Yukihiro Endo
Corporate Directors	Masaki Matsuomoto/Noriyuki Saeki/Yuu Karato/Yukio Matsubara/Yoshikazu Umeda
	Eiji Arita/Kazuyuki Toumoto/Matao Kojima/Joseph John Kaminski
Standing Corporate Auditors	Tomohiro Katano/Yasuo Ito/Tadahiko Handa
Corporate Auditor	Taro Ishibashi

Principal Shareholders (As of March 31, 2007)

Company	Number of shares held (thousands)	Voting shares owend (%)
Japan Trustee Services Bank, Ltd. (trust accounts)	10,707	6.27%
Sumitomo Metal Industries, Ltd.	10,000	5.86%
The Sumitomo Trust & Banking Co., Ltd.	7,936	4.65%
Air Products and Chemicals, Inc.	5,911	3.46%
Goldman Sachs International	5,712	3.35%
Sumitomo Mitsui Banking Corporation	5,596	3.28%
The Master Trust Bank of Japan, Ltd. (trust accounts)	5,025	2.94%
Air Water Customers' Stockholding	4,473	2.62%
North Pacific Bank, Ltd.	3,874	2.27%
Liquid Gas Co., Ltd.	3,786	2.22%